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MALAYSIAN SMEs INTERNATIONALIZATION THROUGH NETWORKS APPROACH

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<p>Abstract</p> <p>In Malaysia, 98.5 per cent of business incorporation is related to small and medium-sized enterprises (SMEs). SMEs had contributed 36.6 per cent of the total gross domestic product in 2016, and it is expected to increase to 41 per cent in 2020. Importantly, Malaysian SMEs create 65 per cent of employment opportunities, and around 20 per cent of the Malaysian SMEs are actively operating their businesses with international partners or clients—internationalization.</p> <p>Although building and managing network relationship has been view as one of the most important ways to ensure the business sustainability in Malaysia, and yet, most of the Malaysian SMEs entrepreneurs are not equipped with a fundamental knowledge of networks in business management. Generally, the Malaysian SMEs entrepreneurs gain networks knowledge through practice, which means that they learn of how to develop, coordinate, and maintain a network relationship via trial and error approach. Undeniably, the trial and error approach is considered a meaningful learning process in business management. Notwithstanding, such a strategy is relatively risky and improper to be applied on internationalization. The reason given is that operating in the international market is more challenging than running a business in the domestic market; the Malaysian SMEs entrepreneurs may face many uncertainties in the global market without proper networks, such as customer needs, distribution channel, legislation, and so on. Thus, the objective of this thesis serves to answer:</p> <ol style="list-style-type: none"> 1) How do networks affect Malaysian SME entrepreneurs to discover international opportunities and to operate their business in the international markets? 2) During the internationalization, what are the influences of networks on Malaysian SME entrepreneurs' knowledge, experience, and future business ideas? <p>The current thesis used Gioia methodology, a systematic inductive approach and rigorous qualitative method to develop the empirical model. Five companies from different industry were selected for the interview, including instant beverage, restaurant, bird's nest supply, design and printing services, and hardware trading.</p> <p>This thesis contributes to the current literature of the Malaysian SMEs by integrating business network internationalization process model (Johanson & Vahlne 2009) and guanxi (i.e., personal relationship). In this regard, the Malaysian SME entrepreneurs are more focusing on the development of guanxi for the sustainability of businesses. In term of managerial implications, entrepreneurs could benefit from knowing how to make a prospect list of global markets and manage international network relationships. The findings of this thesis also important to Malaysian government and institutions; it could be served as a blueprint to plan and design a better training programme for the Malaysian SME entrepreneurs, such as the art of turning a business partnership into a personal relationship.</p>			
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1 INTRODUCTION

The core idea of Chapter 1 is to explain the purpose of this thesis. Specifically, this chapter starts with a research background that identifies the research gaps of the Malaysian small and medium-sized enterprises (SMEs) internationalization. First, the importance of emerging market is presented in a broad view, followed by illustrating the ecosystem, Malaysian international business, and existing research findings and limitations of the Malaysian SMEs internationalization. The chapter later concludes with the significance of this research and the thesis structures are presented.

1.1 Research background

1.1.1 Internationalization in emerging market

World trade has begun in a couple of centuries; based on the historical data. World trade was rise and fall. It has been consistently low at 1500 – 1800 (Estevadeordal, Frantz & Taylor 2003). After the Second World War, the global trade started growing. The rate of growth has increased continuously and grew faster over the last two centuries. The expansion of trade across the global was fast in the previous few decades. Besides, the constant technology development in communication and transportation have reduced the costs and risks which lead to the expansion of trading across countries. Ortiz-Ospina, Beltekian and Roser (2018) stated that the total exports and imports between nations is more than 50% of the global production recently as compared to the 19th century, that was below 10%.

Presently, the global marketplace has become more interconnected and accessible (Hult News 2016). Newspapers and media publish daily news and articles regarding business issues. There are increasing numbers of firms cross-border to perform their businesses. Ortiz-Ospina, Beltekian and Roser (2018) highlighted that the trading between emerging economies is becoming significant. The share of world merchandise trade revealed that the trading of emerging economies had increased more than tripled from 1980-2011. The trading in between advances and developing economies has gradually increased. Helpman, Melitz and Rubinstein (2007) pointed out that bilateral trade is increased and more constant than unilateral from 1970 to 1997, which means

more countries participated trading in both directions. They export goods to a country and at the same time import products from that country. The bilateral trading leads to growth in international trade. In with regards, Fayolle, Liñán and Paul (2017) stated that the bilateral trade agreements between countries had encouraged SMEs to internationalization.

One example of bilateral trading can be illustrated to the phenomenon between the United States (U.S.) and China. In the last two decades, China is considered the key driver of the emerging economies, and China is the world's second-largest economy behind the U.S. (Niriella 2018). U.S.-China have a strong business connection, for example, General Motors has heavily invested in China, and the company sold more cars annually in the Chinese market than the United States since 2010. Besides, the U.S. imports many low-cost products from China which could benefit the U.S. customers (Every CRS Report 2018). Recently, the trade war between U.S.-China has become more intense than ever under the leadership of president Donald Trump (Bryan 2018). Since then, Chinese president Xi Jinping has put more concentration on building the business relationship with non-American countries, especially with the South Asian emerging countries (Khan 2018). Thus, apart from focusing on the market of developed countries, SMEs of developing countries also expand their business in emerging foreign market. For instance, the Malaysian SMEs have been beneficial in business expansion to the Chinese market under the Belt and Road Initiative (Koh 2017), and The Secretariat for the Advancement of Malaysian Entrepreneurs have provided supports to SMEs in regards to this initiative at the multilingual one-stop center that located in Putrajaya, Malaysia.

1.1.2 Ecosystem of Malaysia entrepreneurship and SMEs

Today, the development of entrepreneurship and SMEs are crucial for Malaysian government as it increases the level of the Malaysian economy and also assists in leading Malaysia to be a high-income nation (SME Annual report 2015/16). Among the few economies in the Asian region, Malaysia is a country which has the extensive favorable infrastructure (i.e., financial and physical) and business advisory services (Ariff & Abubakar 2002) in supporting businesses operation among the Malaysian entrepreneurs. The existing entrepreneurship ecosystem include 1) policy development

2) financing and guarantee schemes 3) business registration and licensing 4) startup and incubation 5) outreach and awareness programmes and 6) information and advisory services. Such an ecosystem plays significant roles in ensuring a comprehensive approach to entrepreneurship and SME development (SME Annual report 2015/16). Besides, the Malaysian government has formed the *Small and Medium Industries Development Corporation* for coordinating the development of SMEs. It provides advisory services and training and development programmes for building and improving the capacity and ability of SMEs (Malaysia South-South Association 2018).

Malaysia has been known as a historical trading center and strategically located country which is closed to Singapore, Thailand, Vietnam, Brunei, Indonesia, and Philippines (Dunseith 2017). In 2016, Port Klang, Malaysia is ranked eleven busiest container port in the world and the second largest port in term of container handling in Southeast Asia (Salikha 2018).

As Malaysia is a strategically located country which is closed to Singapore, Malaysia government actively recognizes and takes advantage of its neighbor country resources such as funding, talent, and mobility. For instance, Iskandar Malaysia is a unique economic region which knowns for the main southern development corridor in Johor, Malaysia. The distance from Johor to Singapore is about 15 kilometers. Iskandar Malaysia has become an excellent position for foreign companies to invest as it has plenty of land and tax incentives (Pasquier 2014). Iskandar Regional Development Authority (2015) showed that the top five countries invested in Iskandar Malaysia from January to September 2014, including Singapore, the U.S., Spain, Japan, and China.

The establishment of the Ministry of Entrepreneur Development in 1995 presented the government highly concerned about the entrepreneur development and the issues of entrepreneurship (Ariff & Abubakar 2002). In 2014, the Malaysian Global Innovation and Creativity Centre (MaGIC) was launched to aim for a sustainable entrepreneurship ecosystem. This collaboration between the Malaysia government and the U.S. government serves to provide a one-stop startup service for Malaysia entrepreneurs, including funding, incubators, intellectual property registration, mentoring, and e@Stanford Program—a two-week immersive innovation and entrepreneurship

program at Stanford University and Silicon Valley (MaGIC 2018). With the assistance of MaGIC, the Malaysian entrepreneurs could enhance their management skills, knowledge, and shorten the period in building their startup businesses.

Pasquier (2014) highlighted that Malaysia possesses a well successful startup history because of low-cost entry, well-connected regional hub, and proactive support from the government. Therefore, there are many successful startup stories in Malaysia. For example, iCarAsia that provides a platform for car buyers and sellers to get connected quickly and conveniently within the Southeast Asian countries. Recently, the site has more than 8 million monthly car buyers, and enthusiasts visit (iCarAsia 2018). Malaysia has a good startup reputation; Pasquier (2014) showed that four out of five of the top technology startups existing in Southeast Asia are formed by or with Malaysians, or either by Malaysian-listed company.

The World Bank (2018) showed that Malaysia is ranked twenty-fourth among one hundred ninety countries for “ease of doing business” in 2018. Malaysia offers various business benefits for local and foreign business entrepreneurs. For example, Labuan jurisdiction is one of the excellent platforms for foreigners to form their business in Malaysia with preserving of full ownership and enjoy from low startup cost.

According to the Global Entrepreneurship Monitor Report (SME Annual report 2015/16), Malaysia is ranked sixth out of sixty countries in term of the motivational index. The reason given is that Malaysian entrepreneurs choose to seek opportunity according to their entrepreneurial self-motivation and passionate about their business ideas. Although failure is a typical process of entrepreneurs before succeeding in their business, the fear of failure is a challenge which deters a Malaysian to become an entrepreneur and to venture in an industry (SME Annual report 2015/16). Sipola (2015) stated that startups with high risk and high potential are usually lack of certainty and experimental; therefore, business mistakes and failures are usual. Remarkably, the percentage of Malaysian in fear of failure has been decreasing from 65% to 27.1% in 2009 to 2016 (SME Annual report 2015/16). These two indications have shown that a positive outcome of the ecosystem of entrepreneurship and SMEs in Malaysia and the optimistic attitude towards entrepreneurship among Malaysian.

1.1.3 Malaysia international business

Ariff and Abubakar (2003) highlighted that Malaysia possesses a vigorous entrepreneurial base with an immense possibility to turn into a global player. The former and current policies have nurtured successful entrepreneurs; there are more *Bumiputras* get involved in business and entrepreneurship as compared to the previous two decades. Bumiputra is a Malay word which refers to an ethnic group of Malay and natives of Sabah and Sarawak in Malaysia (The Star Online 2017). For non-Bumiputera companies (i.e., mostly Chinese), they are expanding and reaching abroad. It is a sign to show that Malaysian companies can succeed in the global arena. For instance, Malaysia is the top ten largest exports of furniture in the world with exports around eighty percent of its production. Malaysia has a strong position in the global furniture industry with essential markets in the U.S., Australia, and Japan (Malaysian International Furniture Fair 2018). Most of the furniture firms in Malaysia is established by Chinese ethnic.

In 2016, Malaysia is recognized as the eighteenth largest exporter in the world (The Observatory of Economic Complexity 2018). The major exports products include 1) electrical and electronic products 2) petroleum products 3) chemicals and chemical products 4) manufacturers of metal 5) palm oil and 6) machinery equipment and parts (Malaysia External Trade Development Corporation - MATRADE 2018). According to MATRADE (2018), there is an increase in total export from MYR786.96 billion to MYR935.39 billion in between 2016 and 2017. The major export countries of Malaysia include Singapore (14.5%), China (13.5%), the U.S. (9.5%), Japan (8%), Thailand (5.4%), Hong Kong (5.1%), Indonesia (3.7%), India (3.7%), Australia (3.5%), South Korea (3.1%) and the remaining 30.1% is related to other countries. Thus, the Asia countries have been considered important internationalization of Malaysia as they accounted for more than 57% of export volume.

Although Malaysia has performed well in exporting, the government still intends to improve the export rate of Malaysia; therefore, MATRADE aims to increase a five percent in exports of lifestyle products which including textiles, apparel, accessories, and furniture (The Star Online 2018). Through this, it offers a way to encourage SMEs to expand more to the Southeast Asian and foreign markets.

1.1.4 Network approach in emerging countries

Despite existing research on networks of internationalization (i.e., network approach to internationalization), the empirical evidence in emerging countries is still limited (Ghauri, Lutz & Tesfom 2003). Zeng and Williamson (2003) highlighted that many Asia developing countries are looking for sustainable networks to become globally competitive firms. Those Asian firms are keen to networks and actively look for external relationships, ultimately they are able to gain the latest information and maintain their competitiveness in international markets (Zhou & Xin 2003; Tambunan 2008).

Generally, firms tend to build and maintain their network relationships with their business partners either inside or outside the country as they know that this could benefit them. From the previous research, most of the Malaysian firms rely on the network relationships to operate their business or even expand to an international market. Hamed (1995) stated that Bumiputera entrepreneurs employ their personal networks in many fields of their business. A positive relationship with actors through their personal networks allow them to have financial assistance, moral support, advice, business information, resources and services, new contacts, business knowledge and skills, and access to a new or existing market.

Zain and Ng (2006) illustrated that Malaysian software firms have successfully internationalized their products to foreign markets within a few years because of connecting themselves with extensive established networks. Based on their study, the software firms highly rely on the network relationships in their initial decisions to an international market, to maintain business sustainability in the global market, and to get involved in any marketing activities even though the entrepreneurs themselves are not a marketing expert.

According to historical data, Malaysia and Singapore have established a strong business network relationship, thence two-way business investment in between two countries is ordinary. Usually, Malaysian SMEs invest in Singapore that focuses more on services, rather than in manufacturing industries, whereas Singapore serves as an export platform and provides capital to the Malaysian firms. Therefore, Malaysia and

Singapore have become interdependent through network relationships (Yeung 1998). Many prominent Malaysia Chinese transnational corporations (e.g., Genting, Kuok's Group, Hong Leong Malaysia, and Paramount) have remarkable performance in Singapore through their engagement in complex networks. The leading businessmen in these complex and intractable networks are Lim Goh Tong, Robert Kuok, Quek Leng Chan, and Vincent Tan (Yeung 1998).

Omar and Ramlan (2014) mentioned that actors such as customers and suppliers are not only the network relationships need to develop in business transactions, they also consist of parties (i.e., government agencies, consultants, banks, business advisors, business associations, and competitors). They are required to create and maintain network relationships with various parties in the business environment to have viable businesses. Network relationship is significant for Malaysian firms including large and small enterprises. Senik, Isa, Scott-Ladd, and Entekin (2010) mentioned that networks relationship play a remarkable role in leading Malaysian entrepreneurs to global markets. Therefore, more firms have incrementally engaged in international networks.

1.1.5 Existing research studies of Malaysian SMEs internationalization through networks

Network theory has been existing multiple times in the internationalization research studies. However, little research is focusing on the Southeast Asia countries. Recently, the internationalization of SMEs through network relationships is gaining interest among scholars. Senik et al. (2010) stated that networks and relationship is a crucial factor to influence SME internationalization. Farinda, Kamarulzaman, Abdullah and Ahmad (2009) investigate the role of business network as a strong element for the Malaysian SMEs. Their findings highlighted that it is crucial to know the motives (i.e., asymmetry, necessity, reciprocity, stability, efficiency, and legitimacy) for building business networks to bring successful businesses for SMEs.

Zain and Ng (2006) examined the use of network relationship to facilitate SME internationalization process. Network relationship has been used to motivate and trigger entrepreneurs internationalize, influences the decision of market selection,

mode of foreign entry decision, international pace, and pattern as well as to reduce the risk and cost.

Senik, Scott-Ladd, Entrekina and Adham (2011) examined the effectiveness of the networks system in Malaysia. This study intends to identify the roles and sources of networks that assist SMEs to internationalize. It showed that government institutions, business associates, and personal relations are the interrelated sources of networks for SMEs internationalization. Hamed (1995) explained the personal networks are crucial for Malaysia Bumiputera entrepreneurs in developing their business. He found out family and friends become essential roles in building networks for Bumiputera entrepreneurs because of the social culture and relations.

Omar and Ramlan (2014) discovered three critical themes to explain the factors of participation in clubs or associations for small business entrepreneurs. There are obtaining intangible resources, strengthening network capability, and fulfilling social needs.

Although the existing research focused on the network relationship that influences and facilitates SMEs internationalization in Malaysia. However, a comprehensive model about the values of networks that lead to Malaysian SME entrepreneurs in international markets is still limited.

1.2 Research gap and purpose of study

This thesis is related to the research on entrepreneurship, international opportunity and internationalization within the network. Bruton, Ahlstrom and Obloj (2008) highlighted that most of the entrepreneurship research is focusing on the North American and the European contexts. Researchers little know the exploration of outside these two developed regions. Thus, future study should be conducted in the emerging regions as the findings from the advanced economies are not applicable to the entrepreneurs in the emerging economies (Bruton, Ahlstrom & Obloj 2008). Emerging economies refers to countries which having rapid economic growth with increasing income and buying power (Senik et al 2011). Sim and Pandian (2003)

highlighted that limited attention had been given to the relation of SMEs and internationalization in emerging markets.

From the previous study, the literature from developed countries has repeatedly found that networks influence on internationalization. However, a question arises whether network still holds a similar positive impact in the context of small firms that operate in the Southeast Asian countries (e.g., Malaysia). For this reason, Senik et al. (2010) call for research that recruits entrepreneurs to understand influential factors that lead to SMEs internationalization in emerging countries. As refer to Senik et al. (2010) study, the empirical data was collected from experts (i.e., academics, supporting government agencies, the Chamber of Commerce, policymakers and research institutes) which could limit the understanding of internationalization process; therefore, the more comprehensive of understanding the internationalization process from the viewpoints of entrepreneurs or practitioners is essential for better understanding.

As Zain and Ng (2006) research of Malaysian SMEs internationalization was derived from a single sector; therefore, their findings might be limited to the software industry. A more empirical study has to be conducted to verify and generalize their results in other business sectors.

Ortiz-Ospina, Beltekian and Roser (2018) highlighted that trading between emerging economies is becoming more important than ever. The growth of SMEs in Asia is considered rapid because of the great business opportunities. Besides, there are increasing numbers of international firms located in the developing countries are becoming significant as they contributed to the global economy. Thence, it is interesting to conduct a comprehensive study in an emerging country. The context of this study is mainly based on the SMEs in Malaysia, an emerging nation that is based in Southeast Asia.

Eleven sovereign states exist in Southeast Asia, namely Brunei Darussalam, Cambodia, East Timor, Indonesia, Laos, Myanmar, Philippines, Thailand, Vietnam, Singapore, and Malaysia. According to Brent (2018), Singapore is the only country in Southeast Asia to be considered an advanced economy, whereas Brunei Darussalam,

Cambodia, Indonesia, Laos, Philippines, Thailand, Vietnam, and Malaysia are categorized as emerging economies.

Taking consideration into emerging regions that exist in Southeast Asia, Malaysia has scored the most advanced emerging economies in term of Inclusive Development Index, healthy life expectancy, and gross domestic product per capita (Brent, 2018). In time of a 2018 published report of global entrepreneurship index that captures the extent and depth of the supporting entrepreneurial ecosystem, including opportunity perception (pillar 1 and 6), networks (pillar 4), internationalization (pillar 13), and competition (pillar 9), Malaysia is ranked 58 globally with 32.7 scores, slightly behind ranked 53 Brunei Darussalam with 34.3 scores (Ács, Szerb, & Lloyd 2018). Further, the literacy rate of Malaysia is relatively high at 93.7 (Worldatlas, 2018) and the Quacquarelli Symonds (QS) world university rankings 2019 reveals that Universiti Malaya and Universiti Kebangsaan Malaysia are globally ranked as 87 and 184 respectively (QS, 2018). For these reasons, it is rational to select Malaysia as an entrepreneurship study phenomenon of the emerging economies.

Although there are several business programs and funding are provided by the Malaysian government and private institutes to assist SMEs during their early stage operation, such as Cradle Fund and Malaysian Global Innovation & Creativity Centre. However, many businesses encountered failure. The reason given is that many SME entrepreneurs are not able to manage their ongoing companies in the international market; they are lacked of knowledge, experience, network, and capability to overcome the unexpected event (Abdullah & Zain 2011). Therefore, networks could be a successful antidote to solve the problem.

The objective of this thesis is to respond to the following research questions:

- 1) *How do networks affect Malaysian SME entrepreneurs to discover international opportunities and to operate their business in the international markets?*

- 2) *During the internationalization, what are the influences of networks on Malaysian SME entrepreneurs' knowledge, experience, and future business ideas?*

This thesis serves to enhance reader's and SME entrepreneurs' knowledge by providing a deep understanding on the present SMEs internationalization through the networks approach.

1.2.1 Significance of the research

This thesis highlights the roles of networks that affect entrepreneurs in discovering international opportunities and operating their business in international markets. Previous research indicated that international business network coordination would turn into a considerable phenomenon which could offer several benefits (Johanson & Vahlne 2009). Specifically, this thesis focuses on the method of managing and coordinating the international relationships. Apart from that, how SMEs is connected with the current business partners is another interesting point that answered by this thesis. Besides, this thesis provides differences of actions and commitments of SMEs entrepreneurs with international networks by comparing with previous findings that conducted in Western and developed countries. In term of implications, the current thesis contributes to a more practical-based model of the network that beneficial to all Malaysian SMEs entrepreneurs. Further, the findings of this thesis could be used by any Malaysian government institutions in planning and designing their programmes of enhancing the Malaysian SMEs' sustainability in internationalization.

1.3 Structure of the thesis

Chapter 1 serves to position the direction of this thesis by demonstrating the research backgrounds and reasons for conducting the research. Chapter 2 presents a literature review of Malaysian SMEs internationalization, internationalization theory, and network theory. Chapter 3 explained the used of methodology and the background of the selected companies. Chapter 4 presents the data analysis and findings of the study. Chapter 5 provides a discussion and conclusion with all key results, highlights the contribution of the study from theoretical and managerial point of view, the limitations

of this thesis and suggestion for the future research, and assessments the validity and reliability of the study. The appendices consist of interview questions and list of companies.

2 LITERATURE REVIEW

In this chapter, the literature of internationalization, network approach and Malaysian SMEs internationalization are reviewed to provide a better understanding of earlier and latest findings, the exact phenomenon, and the theoretical development overtimes. As the previous chapter has mentioned, scholars highlighted that the network is considered an essential factor to facilitate firms to go abroad. Therefore, the coordinating and managing the relationship with actors in networks of SMEs become more meaningful to know.

2.1 Internationalization

In the last few decades, intensive research has been conducted to explore from different perspectives of internationalization, including organizational theory, network theory, international management, strategic management, and marketing. According to the current literature, scholars have employed different definitions of internationalization in their research phenomenon. A simplified description of internationalization is a firm cross-borders (Schweizer, Vahlne & Johanson 2010). Calof and Beamish (1995) interpreted internationalization is a process of the firm's participation in international operations. In the current thesis, internationalization is defined as "*outward movement in an individual firm's or larger grouping's international operations*" (Welch & Luostarinen 1988). Another explanation for internationalization is "*Internationalization as the process of adapting the firms' operations (the strategy, structure, and resources) to the international environment*" (Johanson & Mattsson 1993; Masum & Fernandez 2008; Senik et al. 2010). In general, internationalization refers to a firm starting its business from the domestic country and gradually expand to foreign countries.

Welch and Luostarinen (1993) suggested two types of internationalization: outward internationalization (e.g., selling products in foreign markets and developing business alliances in foreign countries) and inward internationalization (e.g., adopting management skills, new technology, direct investment from foreign countries). Outward internationalization benefits firms especially in learning new technologies, the needs of international markets (Francis & Collins-Dodd 2000) and generates a

positive economic result that due to revenue growth (Kogut 1985). Contrary, inward internationalization improves the performance of firms by learning or using foreign technologies, management skills, and gain capital investment (Buckley, Clegg & Wang 2002).

Johanson and Vahlne (2009) stated that two possible reasons for the firms to have international expansions: 1) discovery of exciting business opportunities and 2) influence of the business partners who intended to expand business in the foreign markets. Other reasons that drive to internationalization include the firms wish to increase future income, market diversification, and the limit of market expansion in their home country.

Firms gains several benefits from internationalization. Firstly, firms can achieve cost efficiencies because of the large volume business and able to utilize economies of scale (Hout, Porter & Rudden 1982). Next, as the firms operate in a diverse international environment, they have the opportunity to learn how to satisfy and meet customer needs from different parts of the world. Such a process would further improve their competitiveness and ability to compete with different international competitors (Kostova & Roth 2002). Nonetheless, firms encounter risks and challenges from the internationalization process, such as unfamiliar with foreign laws and regulations, and difficulties in communications, languages and cultural differences. Johanson and Vahlne (2009) argued that such risks and challenges are generally complicated and hard to prevent when firms extend their business to an unfamiliar place.

Johanson and Vahlne (1977) developed the Uppsala internationalization model that focuses on the characteristics of the internationalization process of the firms and is considered as a risk reduction model. It illustrates how firms could gradually increase their activities in foreign markets. The model showed that Swedish manufacturing firms usually scale their international operations in small steps. The establishment chain illustrated firms begin with exporting to a country by agent, then when the time the sale grew they will have their own sales subsidiaries and followed by established wholly owned subsidiaries. In other words, firms usually start with little investment and less risk-taking, they will invest more resources and capital after a period as they recognize and confirm the potential market. Those firms usually start entering a

foreign market which is closer to their home country as it has less psychic distance, especially in business practice, language, cultural, education, and industrial development differences. Slowly, they will choose to enter a far distance foreign market that has a higher level of diversities.

Uppsala model illustrates the internationalization process of firms is driven by their knowledge (see Figure 1). The knowledge accumulation and learning are the main elements to influence firms internationalization. Besides, this model has two aspects: state aspects and change aspects. State aspects included *market knowledge*. The firms have knowledge of the foreign market, environment, and operation. It can be taught or can be learned from personal experience. Besides, firms gradually gain experiential expertise during their international operations. General knowledge and market-specific knowledge are needed for firms to perform activities in a particular country. *Market commitment* is referred to the firms allocate resources to the foreign market, and it is measured by two factors: the number of committed resources and the degree of commitment. Generally, the more the resources invested in a specific foreign market, the higher the degree of commitment will be assigned to the international market.

As for the change aspects, *commitment decisions* explain the decision of the firm to commit resources to the foreign market. The problems and opportunities in a foreign market are aware by the firms when making decisions. They concern about uncertainty effect and economic effect on each of the decisions. Besides, *current activities* describe as the firms keep repeating their business operation to achieve the desired outcome.

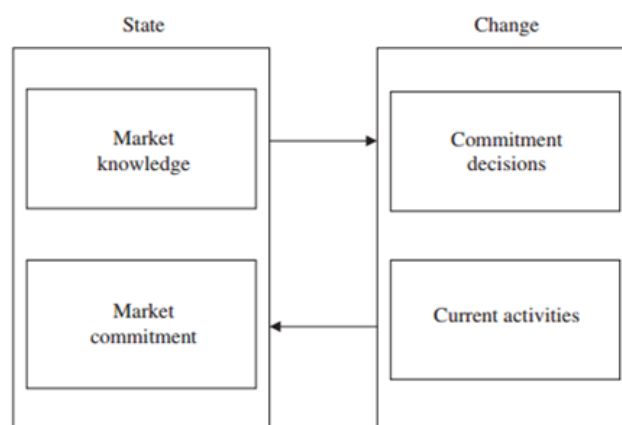


Figure 1. The basic mechanism of internationalization: state and change aspects (Johanson & Vahlne 1977).

Sharma and Johanson (1987) studied the internationalization process of technical consultancy firms from the service industry. As compared to the previous internationalization process of small manufacturing firms, the risks of service firms in internationalization are relatively low. The service firms are unlike manufacturing firms that require massive capital investment and fixed assets. Service firms such as a professional consulting firm are not needed fixed assets, and the skill possessed by them can be slightly modified and use in many ways and many countries that based on clients' need. In the service industry, the sales and production of the service are accounted together and no economic basis for sales units or sales agents in abroad. Thus, the risk avoidance is lower as compared to the manufacturing firms which required to the assistance of export experts and a local agent from the foreign market. The consultancy firms are not performing according to the established chain because it can be established as a local subsidiary only after receiving a task. Further, once the consultants have completed their mission, the office can be closed quickly and move to another market. In general, the internationalization process of consulting firms is not similar to the concept of internationalization that applies to the manufacturing firms.

In summary, the Uppsala internationalization model shows that knowledge is an essential element for firms to understand their foreign targeted markets and thus reduce the adverse risks. They are gradually gaining experiential knowledge during their overseas operation. Further, the firms increasingly get involved in international by increasing their level of commitment. However, the traditional Uppsala internationalization model is not suitable for all industry, an example of the service industry as given in the above paragraph. It might have a different process in internationalization. For example, software company IOS, Android, they do not need any intermediate agents to assist them to enter global markets. Therefore, different industries supposedly to have different internationalization process.

2.2 Network theory

A network is a model that explains a large number of entities that are connected. In a competitive environment, it is crucial for business people to have network contacts that could provide specific support and service to them (Mitchell 1969). Network

approach enables business people to have a better understanding of what happens in the complicated business markets in which they are engaged (Olkkonen, Tikkanen & Alajoutsijärvi 2000).

Barnir and Smith (2002) stated that social networks are essential for small firms as they could acquire additional resources and emotional support from actors. Even though they are small size firm but the present technology development encourages them to use their networks regularly, especially in the online context, such as email, social media channels, video conference, text messaging services, Skype and other. Fuller and Thomas (2004) indicated that each of the alliance is considered as a social network. The information communication technology (ICT) provides opportunities for a firm to build a strong network relationship with its long-distance business partners. As Boudreau, Loch, Robey and Straud (1998) indicated that information technology makes geographical boundaries no longer considered as a limitation of business practice and can be easily transcended. Therefore, the coordination and control of firms could be managed effectively and promptly when dealing with their partners by utilizing the advanced of technology.

In recent decades, network theory has been highlighted its importance in the marketing and international business literature. Gilmore, Carson and Rocks (2006) studied the networks of SMEs owners in connection to their marketing activities within the food distribution channel context. Indeed, networks would influence marketing activities. The reason given is that SMEs owners utilize networks to carry out marketing when the time of multinational companies entered into their local market. They use networks to discuss, plan and refine marketing activities such as designing marketing activities, managing product, and promotion decisions and managing product pricing.

2.2.1 Network theory of internationalization

The definitions of internationalization with networks and relationships context have been formed since the 1990s. Naidu, Cavusgil, Murthy and Sarkar (1997) refer internationalization as to a firm gradually developing their network of global trade relations. Johanson and Vahlne (1990) interpreted internationalization as an accumulated process in which relationships are continuously built, developed,

maintained and dissolved for the purpose of meeting the firm's objectives. A closely similar explanation from Lehtinen and Penttinen (1999), internationalization means developing networks of business relationships in foreign countries through extension, penetration, and integration. Axelsson and Johanson (1992) illustrated networks as the relationship between the firm's management team or employees with their customers, suppliers, government, distributors, bankers, competitors, families, friends, and others who enable them to expand their business activities into an international level.

Based on the prior studies in the 1980s, the network model of internationalization was developed because most of the existing firms have proved to use the network approach to facilitate their internationalization (Johanson & Mattsson 1988). Johanson and Vahlne (2009) stressed that business network is the web of connected relationships. In other words, the markets are networks of interconnected relationships (Johanson & Mattsson 1988), and the relationships lie in the individual and organizational level (Solberg & Durrieu 2006).

Firms usually establish, develop, and maintain a long-lasting business relationship with their business actors (Hakansson 1982; Hallén, Johanson & Seyed Mohamed 1987). Rocks, Gilmore and Carson (2005) suggested that the networks of SMEs owner or manager are established based on his or her regular interactions and activities which involving personal networks, business networks, social networks, marketing networks, and industrial networks.

Etemad, Wright and Dana (2001) stated that the symbiotic relationships with large firms could assist SMEs to compete in the international markets. The connections within networks allow firms to gain knowledge about foreign markets, acquire resources, and reduce entry risks. The foreign market knowledge could provide opportunities for firms to internationalize and also enable them to create an appropriate strategy to speed up their internationalization process (Wincent 2005).

Recently, a number of literature has discussed the importance of network in supporting and facilitating the internationalization process of a firm. Sharma and Johanson (1987) examined the internationalization of technical consultancy firms. They showed that

the network relationships of consulting firms with other consulting firms are crucial. Consulting will have the chance for internationalization as they gain the foreign market opportunities through the network actors and recommendations from their business partners or clients. The relationships can be considered as bridges to abroad when the consulting firm has a positive feeling with other firms which operate in international networks.

Johanson and Mattsson (1988) defined internationalization as a firm establishes and develops the positions in the network relationship to the counterparts who are operating in foreign countries. Besides, when the firm has the existing position in abroad, it has the intention to develop position and increase resource commitment.

Johansson and Mattsson (1988) analyzed the different situations of the firm in internationalization as shown in Figure 2. The *early starter* shows that internationalization of the firm usually is encouraged by foreign distributors or customers. Due to the firm's insufficient international market knowledge and limited relationships in abroad and also low opportunity to acquire knowledge from its domestic market. Therefore, the model suggests that the firm needs to get assistance from agents. For *lonely international*, a firm is highly internationalized but the market environment which is lack of investment from foreign firms. The model argued that the firm would have abilities to succeed because of their existing knowledge and experience in international markets. Also, the firm can spread its new product faster and easier by using their position in the market. The *later starter* shows that a firm with low internationalization in the internationalized market environment. The firm enables to enter the foreign market based on the relationship in a domestic market. The *international among others* illustrate a firm with high internationalized and operates in high internationalize environment. This firm has connections with many global networks in order to obtain external resources. The model has clearly illustrated the different conditions of firms in internationalization, and it is useful for them to understand their current situation and able to allocate their effort on strengthening their position in a foreign market.

		Degree of internationalisation of the market (production net)	
		Low	High
Degree of internationalisation of the firm	Low	The Early Starter EARLY	The Late Starter LATE
	High	The Lonely International LONELY	The International Among Others INTERNATIONAL

Figure 2. Internationalisation and the network model

Coviello and Munro (1995) emphasized the use of network relationships to seek foreign market opportunities and to perform international marketing activities. The network relationships are perceived as an increase in firms' international competitive position, accesses to local market knowledge, and obtains initial credibility as well as reduces the entry costs and risks. For young internationalization firms, their existing networks are advanced for their firms' current growth and even accounts for their future growth. The mature firms' highlight networks relationships have increased their firms' market development activities. However, restrictions would be embedded in them especially in seeking specific marketing opportunities and building relationships with others. Therefore, firms develop new products for markets diversification or establish in-house marketing and service to reduce the marketing activities that controlled by significant players (Coviello & Munro 1995). The heavy relied on the network partner while entering an international market and also develop market is beneficial for a firm in the early stage. However, limitations may occur in the later stage. The firm needs to find solutions to reduce their reliance with the dominant partners. Therefore, networks could be seen as useful in certain conditions.

Small manufacturing firms perceived cooperation within networks could bring valuable benefits, and it is a cost-effective way to improve their business performances. The group or association joined by SMEs will offer services such as seminars, exhibitions, and training. For example, firms have the opportunity to listen to professional speakers in their field and discuss the current topic in the business world during the seminar. Small manufacturing firms use networks to improve their business operation ability and ultimately to be more efficient and profitable. The main advantages of participating in networks are that it could establish personal contacts and have chances to meet people more regularly. Besides, they can gain the latest news

and information to ensure their businesses are at the forefront of the current phenomenon (Fuller-Love & Thomas 2004).

In the business environment, the network relationships of entrepreneurs with partners have impacted their firms' performance, including network relationships with business chambers. Omar and Ramlan (2014) illustrated three critical factors for the reason of SMEs joining in business chambers: 1) improving network capability 2) acquiring intangible resources, such as understand the current business environment that they need to be aware of, acquire knowledge and gain benefits from training and seminar 3) fulfilling social needs, includes getting to know others with creating new relationships.

From the literature, networks are not only focusing on the network relationships between firms, but also the firms participating in the group, association, or club. Firms might receive advantages if the person who joins the group or club that have strong authority. However, some group or club failed to perform their roles due to a lack of discipline and responsibility. They are recommended to improve their roles and attentive to support and to facilitate their SME members. Thus, joining the group or club is an optional network method.

Senik et al. (2011) explained sources and roles of networks for Malaysia SMEs internationalization. The sources of networks are interconnected between personal relations, business associates, and government institutions. The unity among networks sources and agencies are essential to achieving internationalization as solely depends on either one source is not sufficient. Networks enable firms to gain knowledge about foreign institutions (e.g., current rules and regulations) so that they will alert when entering the foreign market. The government institutions such as ministries and agencies play the crucial role in assisting and supporting SMEs to international markets. Therefore, they strongly recommend SMEs to utilize the resources as provided by government institutions.

2.2.2 The business network of internationalization process model (revisited)

Despite the Uppsala model is popular, the model faces a lot of criticisms and limitations. Abdullah and Zain (2011) criticized the Uppsala model might not apply to explain the present rapid internationalization of SMEs because the world economy is integrated with the advanced of technology and reduction of trade barriers among countries. Thus, more firms intend to go international when they started their business. Besides, Johanson and Vahlne (2009) highlighted that their Uppsala model needs to be revised because of the numerous studies on the network perspective on the firms' internationalization. For instances, the network relationship could influence on the selection of foreign markets and mode of entry (Coviello & Munro 1995), the long-lasting relationships in between suppliers and customers within country or other countries are crucial (Hallén 1986), firms consistently participate in a set of different, close and long-lasting relationships with their important suppliers and customers (Håkansson 1989). Saleh and Ndubisi (2006) recommended that the Malaysian SMEs should develop business networks and strategic alliances to gain competitive advantage and to achieve the successful business. All these findings provide strong evidence that networks are essential to firms' internationalization.

For these reasons, the Uppsala model was revisited by adding business network view and entrepreneurship theory (Forsgren 2016). This model considered a proper method by analyzing the firms' internationalization behavior. Further, this revised model provides insights into opportunity development and relationship development processes. Besides, it uses to cope with the changing of the business practices and business environments. From the business network view, firms can learn and gain knowledge from other actors in the network relationships. In contrast, the original model only represents the knowledge gained through experience when operating abroad. Apart from that, knowledge is a considerable component for firms to go international.

Johanson and Vahlne (2003) stated that internationalization is more on strengthening a firm's network position rather than claim as overcoming traditional entry barriers. In the latest revised model as shown in Figure 3: The business network model of the internationalization process, the state aspects including *knowledge opportunities* and

network position. They considered opportunities as the key element of the body of knowledge that drives to the internationalization process. Opportunity recognition is viewed as a discovery of the hitherto unknown and the entrepreneurs are alert of and be ready for the surprise. In contrast, Kizner's view that it is accidentally rather than an outcome of opportunity seeking activities (Forsgren 2016). Other vital components of knowledge consist of needs, strategies, capabilities, and networks which are related to the firm. For the *network position* element, they assumed a firm goes internationalization through a network. As the relationships with different parties within the network are distributed unequally (e.g., level of knowledge, trust, and commitment). Therefore, they might be different in promoting successful internationalization. The firm will enjoy a partnership if the process could be beneficial to them. Such effect is extended to the network of the particular partnership, which means that if someone or a firm is doing great within their network, such positive outcome would be reflected other actors that exist in the same network (Johanson and Mattsson 1992).

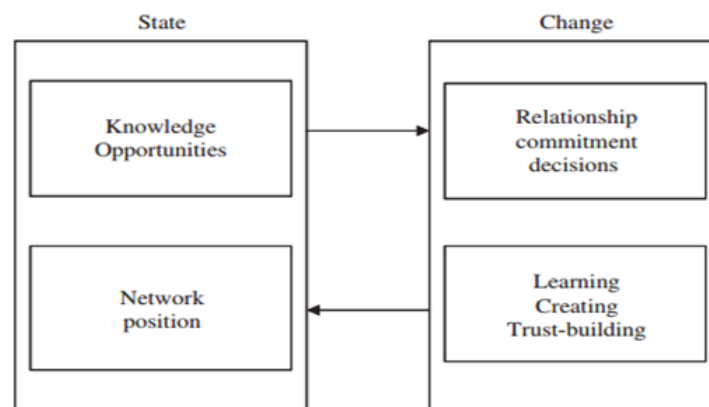


Figure 3. The business network internationalization process model (the 2009 version)

Apart from that, the revised model includes other changes such as adding *relationship commitment decisions* element, which shows that a firm will make the decision either increase or decrease the extent of commitment with the relationships in its existing network. There are two types of decision for the commitment to the relationship: 1) build a new relationship 2) protect and support the current network relationships. In other words, the decisions drive the process whether establish and continue growing the network relationship or terminate the network relationship.

As refer to Figure 3, *learning, creating, and trust building* is another important element which illustrates the current knowledge, trust, and commitment that would affect the processes of for gaining knowledge, and forming the trust among actors in the network. Vahlne and Johanson (2013) stated that learning and creating have a tight relationship. Trust is known as a prerequisite of learning (Granovetter 1985) and commitment (Vahlne & Johanson 2013). In general, the existing business relationship allows a firm to identify and to develop the opportunity. Besides, internationalization is contingent that developing opportunities rather than overcoming uncertainties. The revised model has included trust (i.e., affective dimension) as an essential element to understanding such relationship.

A few years later, the Uppsala revisited model continue to use on the evolution of the multinational business enterprise (MBE). The outcomes of the study create several essential elements. Vahlne and Johanson (2013) proposed a model which is specifically designed for explaining the evolution of multinational business enterprise by using the Uppsala model version 2009 and including the explanation of dynamic capabilities theory, a theory of management of uncertainty, and theory of entrepreneurship (see Figure 4).

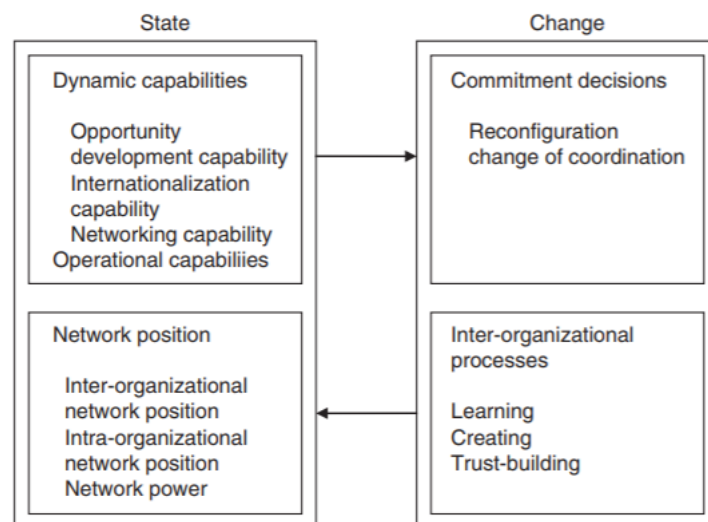


Figure 4. The Uppsala model of MBA evolution (Vahlne & Johanson 2013)

This model highlighted that whatever new knowledge gained during the internationalization process would have an influence on the subsequent learning process as well as the firm's commitment decision. There are two essential updated of

this model as compared to the Uppsala model (Johanson & Vahlne 2009): 1) This model proposed considering the firms' commitment of party, project or strategy 2) The learning, creating, and trust-building elements should be focused on the inter-organizational processes.

Vahlne and Johanson (2013) stated that inter-organisational is a critical element in this model. Further, the creation process is crucial as it is able to create new relationship structures and new knowledge in the evolution process of the MBE (Dosi & Marengo 2007). Dunning and Lundan (2008) highlighted that the rapid and complicated environment changes in present and future would lead to uncertainty. At the same time, Vahlne and Johanson (2013) advocated that uncertainties are related to management, but such consideration is often underestimated. In other words, the management usually omits risks and uncertainty. For this reason, Vahlne and Johanson (2013) tailored the Uppsala model by considering the uncertainty to resolve such issues.

Forsgren (2016) argues that the need to pay more attention to the outcomes while including business network and entrepreneurship theories into the revisited Uppsala model. Therefore, he conducted a critical examination of the revisited Uppsala model by focusing on the consequences. The structural and relational aspects in which firm embeddedness can be used to enhance the understanding of the internationalization process and the role of liability of outsidership. An open network may reduce the firms' liability of outsidership and has the capability to discover business opportunities. The internationalization process can be shaped by the decision making of the entrepreneur and business network of a firm. Numerous questions have been listed for more research regarding business network theory with the Uppsala model, and the entrepreneurship and Uppsala model:

- 1) How can the firm strike a balance between networks that reduce the liability of outsidership in the opportunity discovery phase of the internationalization process, and networks that reduce it in the opportunity development phase?*
- 2) If entrepreneurship is fully integrated into the Uppsala model, how relevant is incremental behavior, manifested in the speed and direction of internationalization?*

As for the current thesis, the framework of the business network internationalization process (the 2009 version) will be adopted as this model emphasizes a proper process of SMEs internationalization that integrates business network theory and entrepreneurship. Thus, we could assume that it is the most suitable model in the Malaysian SMEs internationalization context.

2.2.3 Guanxi—Social network

In Asian countries, especially in China, Hong Kong, Taiwan, Malaysia, and Singapore, the ethnic Chinese firms tend to foster personal relationships in their businesses that known as *Guanxi*. “*Guanxi is built through family ties, personal connection of the owners, including connection with selected government-owned companies, trust, and cooperative strategies*” (Sim & Pandian 2003). Fan (2000) advocated that *guanxi* is conceptualized distinct to networks although both concepts share some similar features.

Guanxi is a Chinese word which means connections or relationships between individuals and it is a general term for social networking (Yeung & Tung 1996). It is a Chinese culture value that affects business operation, especially in China. *Guanxi* refers to two individuals have a reciprocal exchange for a purpose (Fan 2002). Specifically, the connection is established in between two individuals who have the mutual flow of social or personal transactions. The practice of *guanxi* of Confucian philosophy has been existing and universal in Chinese business society for more than 2000 years (Wiegel & Bamford 2015).

In reality, *guanxi* sort into three categories: family, helper, and business *guanxi* (Fan 2002). Since the current thesis is focusing on the Malaysian SMEs, the following discussions would be centered on business *guanxi*. Businessman sometimes uses *guanxi* to look for the solution. Besides, *guanxi* refers to individuals would receive favorable treatment in an exchange of easy to access limited resources, enhance access to controllability information, credits grants, and other privileges (Lee, Pae & Wong 2001). Chinese believes that *guanxi* could be a critical factor for operating business as it enables entrepreneurs or firms to utilize social capital for the establishment and sustainability of their business.

The pursuit of advancement and survival of an organization have triggered the relationship between SMEs and guanxi emerges. Guanxi is considered a personal asset. For instances, an employee can use guanxi to gain benefits to his/her employer, but it is relatively impossible to be a company asset, as once he/she left the firm, the firm would never receive the similar "special treatment." (Tsang 1998; Fan 2002).

The recent networks literature more concerned about the western business context. However, history proposes that the network is somehow related to guanxi, which has been the main form for China's transactional governance since a long time ago before the notion was adopted by the Western theorists (Davies, Leung, Luk & Wong 1995). Guanxi is more connected to personal instead of corporate. The exchanges between the actors of guanxi can be commercial and also social (e.g., the exchange of preferences and giving of face or social status).

There is different business practices between the Chinese and Western culture, especially in the personal relationship. Guanxi is essential for the Chinese business community and politics and society. It is hard to complete a business task without having guanxi in Chinese culture. If an outsider who wish to transform to an insider, he/she has to show his/her sincerity by giving small gifts, hosting a dinner and giving personal attention (Davies, et al. 1995). Besides, guanxi is a dynamic process which starting with two individuals and may involve more individuals at later stage until to get the thing done. Guanxi brings numerous benefits: 1) It can make the routine business operation smoothly, particular in the collection of payment and transport arrangements. 2) It can establish and enhance a company image and reputation. 3) It allows a person accesses to the broader network of connections through single guanxi with someone who has high influential.

Besides, the actors of a guanxi network are a vital source of information for a firm to understand the current market trends, business opportunities, and gather information related to government policies (e.g., import regulations and restrictions). Guanxi enables members to short-cutting the bureaucratic maze for accessing to tangible resources such as raw materials and authority of resources (e.g., authorization process of the local and central government) (Davies et al. 1995).

Yeung and Tung (1996) recognized that guanxi is a crucial success factor to operate a business in China. The strong building guanxi with the right person is critical to achieving long-term business success. Usually, small size and inexperience firms tend to utilize more on the privileges of guanxi than that large size and high experience firms. Although guanxi is essential, it needs to work with other factors while performing business. Fan (2002) argued that a business strategy that heavily relies on guanxi is considered risky and naive. Wiegel and Bamford (2015) stated that merely depends on guanxi would not ensure a firm's long-term success and sustainability.

Fan (2002) stated that guanxi is more on personal, and it cannot claims as a source of competitive advantage as it will become worthless or even a liability if a party loses their power especially in between a businessperson with a government official. Thus, guanxi is considered a tactical but temporary tool. Apart from that, the role of guanxi in business is gradually decreasing as China, which the Chinese governments and corporations are moving to an open market system.

The existing literature has criticized the use of guanxi in business operation by overstating its benefits that lack proven evidence. The evidence to convince guanxi is favorable to business performance is insufficient (Fan 2002). Recent literature opposes the benefits of guanxi by perceiving it brings numerous disadvantages. The effort of developing and maintaining guanxi is time-consuming and usually incurring high costs (Fock & Woo, 1998; Yi & Ellis, 2000). When a firm heavily depends on guanxi, it will consume more financial and managerial resources to nurture and maintain guanxi network. Eventually, it will face high expenses and risks over than the benefits that obtain from guanxi.

Apart from that, guanxi is related to corruption and crimes. As in China, guanxi between business and government is connected to unfair competition, bribery, and fraud. Therefore, this kind of guanxi is inherently corrupt and questionable in term of ethics and morality (Fan 2002).

As opposed to previous literature, Wiegel and Bamford (2015) using the resource-based view to analyze the role of guanxi within buyer and supplier relationships. They considered guanxi as the organizational resource especially in achieving an

organization goal or look for a business solution. Therefore, it is a source of competitive advantage which similar to the previous literature that views guanxi in the Asian Chinese ethnic firms to broader competitive advantage (Hamilton 1991). The contribution of guanxi from employees not only increase their personal value but also increase the company value. The costs of guanxi such as time, individual effort, and money are perceived as investment resources for maintaining and securing profitable relationships.

Based on the literature, guanxi could be viewed as playing an essential role in the Chinese market, especially in China. It is hard for businesses to operate well if without guanxi. For the Western companies that wish to invest and conduct business in China, they have to consider in building guanxi with others especially in the initial stage: such as setting up operation and business or agreement negotiation. After a period of operating the business, they can reduce relying on guanxi by focusing more on enhancing product quality, services or marketing strategy to ensure long-term business success. The debate on guanxi is more on the organizational resource, or personal asset has existing. For the perspective of this thesis, guanxi is more on personal assets rather than the organization. It is a mobile asset mainly when an employee left the company, and guanxi will be gone as well. Thus, that company will lose the critical guanxi connection.

In summary, the existing literature illustrated the networks of internationalization and also relate networks with the firm's marketing aspect during internationalization. Network relationships have triggered the flow of the knowledge of business opportunities and motivate firms to have an intention for entering the international markets (Sharma & Johanson, 1987; Coviello & Munro 1995; Wincent 2005). Andersen and Buvik (2002) stated that networks allow a firm to receive international opportunities and learning new knowledge during the conversation. Therefore, networks and learning model are correlated, the actors could exchange their ideas and acquire new knowledge from each other.

2.3 Malaysian SMEs internationalization

The research of SMEs internationalization is getting popular because it plays significant roles in the development of the national economy. Omar, Arokiasamy, and Ismail (2009) stated that Malaysian SMEs has contributed to employment opportunities, increase competition, instigate improvement, and assist large firms' operation. The trend of SMEs internationalization became more idealize while the Malaysian government has facilitated in building the linkage between SMEs with well-established government-owned companies (Ninth Malaysian Plan 2006). Since 2006, numerous government agencies have been formed to support the process of SMEs internationalization. Due to this reason, limited research has been conducted in relation to Malaysian SMEs internationalization before 2006 (Anuar 2018; Senik, Isa, Sham & Ayob 2014), with the exception of Zain and Ng (2006).

Abdullah and Zain (2011) mentioned that the development in information and communication technology and reduction in trade barriers and tariffs had increased opportunities of SMEs to extend their business abroad. In Malaysia, the National SME Development Council (NSDC) introduced the definition of SME on 9th June 2005. As for many developments in the economy since 2005 (i.e., structural changes, price inflation and the transformation of business trends), the definition has been revised on 11th July 2013 (see Figure 5) (Development Finance and Enterprise Department 2013). The meaning of Malaysian SMEs underlines the number of full-time employees and annual revenue. Malaysian SMEs are divided into two groups: 1) manufacturing 2) services and other sectors. Further, they are classified into three levels: micro, small, and medium firms.

The selected firms of this thesis consist of one company of manufacturing sector with small-scale size, three companies of service sector with small-scale size, and one company of service sector with medium-scale size. Figure 5 presents the classification of Malaysian SMEs. As for manufacturing sector, the annual revenue of a medium-scale SMEs is between MYR15 million (€3.14 million) to MYR50 million (€10.48 million), with seventy-five to two hundred employees. The annual revenue of a small-scale SMEs is between MYR300,000 (€62,893) to MYR15 million (€3.14 million), with five to seventy-five employees. The annual revenue of a micro-scale SMEs is

below MYR300,000 (€62,893) with less than five employees. As for services and other sectors, the annual revenue of a medium-scale SMEs is between MYR3 million (€628,930) to MYR20 million (€4.19 million), with thirty to seventy-five employees. The annual revenue of a small-scale SMEs is between MYR300,000 (€62,893) to MYR3 million (€628,930), with five to thirty employees. The annual revenue of a micro-scale SMEs is below MYR300,000 (€62,893) with less than five employees.

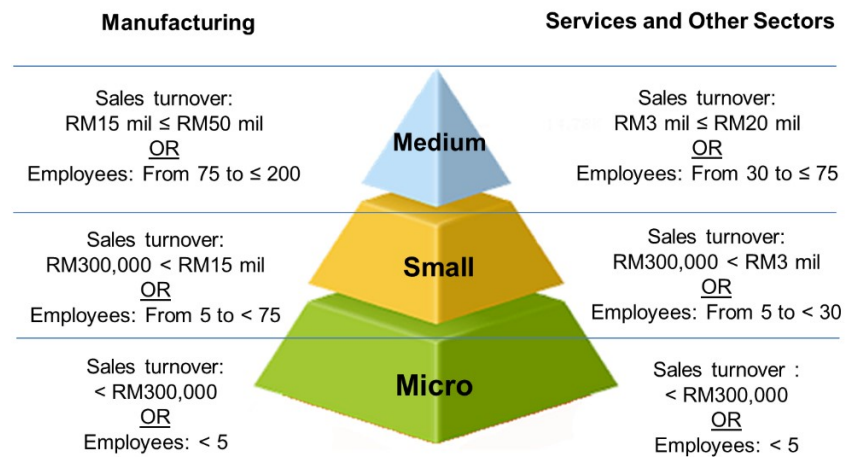


Figure 5. The definition of Malaysian SMEs (SMECorp 2018)

2.3.1 Theories of Malaysian SMEs internationalization

Senik et al. (2010) investigated the factors for Malaysian SMEs internationalization by using two phases: the Delphi technique and the average percentage of the experts' opinions (APEO). The results of the Delphi technique show that the most influential factor that leads to the Malaysian SMEs internationalization is motivational, followed by firm, industrial, external, and networks. Interestingly, the motivational factors become least influential whereas the networks is ranked the most influential factors while using APEO method (see Figure 6).

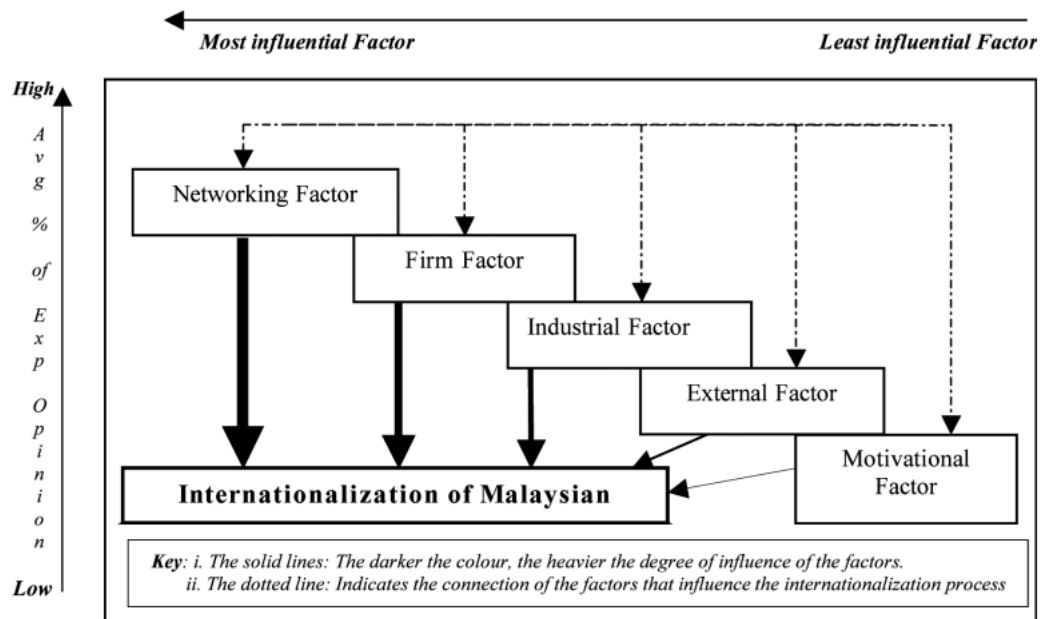


Figure 6. The model of influential factors affecting SME internationalization (Senik et al. 2010)

The reason given is that APEO method is more accurate than the frequency of the items mentioned by the panels (i.e., Delphi technique) as it captures the factors by considering the average responses, in which providing a percentage of each influential factor by dividing the items mentioned with the number of categories of each influential factor. In general, the model reveals that most of the Malaysian SMEs rely on networks while expanding their business to a foreign market, a similar finding as found in Romania (Musteen, Francis & Datta 2010). As in this model, networks refer to the support from government agencies, personal contacts such as friends, colleagues, and family, and the connection with other business associates. Senik et al. (2010) further explain that the identified five influential factors are interrelated, which correlated to each other, rather than describing a process model. One limitation of this model is that the study did not recruit business owners or entrepreneur, and yet, academicians, policymakers, government agencies, Chamber of Commerce, and research institutes were approached. As a result, this model might not reflect the real internationalization process as experienced by the Malaysian SMEs.

Nevertheless, the main findings of Senik et al. (2010) are in line with most of the previous studies that highlighted the importance of networks in internationalization among the Malaysian SMEs (Mahajar & Carraher 2006; Zizah et al. 2010). Similarly in most of the Asian countries that dominated by Chinese businessman, such as

Taiwan, Hong Kong, China, Singapore, and Malaysia, networks that due to personal contact has played an essential role in daily business cooperation, business opportunity, and business expansion (Sim & Pandian 2003; Li & Matlay 2006). Further, Zain and Ng (2006) found that networks also assist the Malaysian SMEs to reduce their business risk, to gain foreign market knowledge, to increase credibility, to lower their business cost, to secure future business revenue, to penetrate a competitive international market, and to establish a close business relationship with government-related companies and other channels. For these reasons, Senik et al. (2011) explored the sources and functions of networks that exist in the context of the Malaysian SMEs as shown in Figure 7.

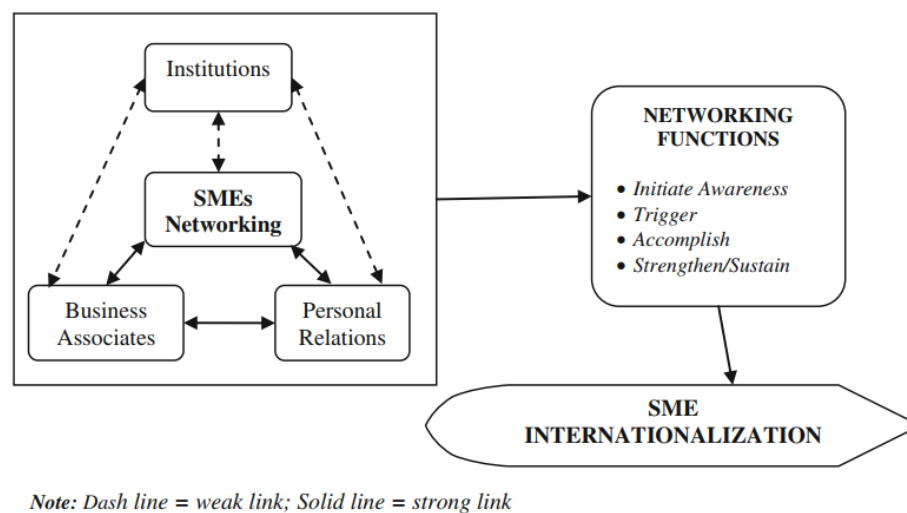


Figure 7. SMEs networking linkages and functions in internationalization process in Malaysia (Senik et al. 2011)

Senik et al. (2011) found that the three primary sources of SMEs networking internationalization are institutions, business associates, and personal relations. In this regards, the institutions refers to the Malaysian Ministries (e.g., Ministry of International Trade and Industry and Ministry of Entrepreneurship and Cooperation Development), government agencies (e.g., The Council of Trust for Indigenous Citizen, Malaysian Industrial Development Authority, Malaysia External Trade Development Corporation), small medium industry supporting bodies (e.g., Small and Medium Industries Development Corporation, Malaysian Industrial Development Finance, Malaysian Industrial Estate Limited), and free trade agreement program (e.g., industrial linkages programs, government to business program).

The main functions of institutions include facilitating SMEs in internationalizing process, organizing international exhibitions, enhancing networks within and outside Malaysia, provides advice on foreign entry modes and support agencies, and offer free education concerning internationalization issues in other countries. The business associates consist of both multinational corporations and SMEs owners, and the primary function is to collaborate, develop, and maintain the business relationship, such as linking with global supply chains and become a supplier to the multinational corporations or its subsidiaries. The personal relations refer to an individual connection that formed through business operations, friends, relatives, colleagues, exhibitions, seminars, conferences, and associations, and such source leads typically to an ease process of internationalization. Ultimately, these three sources set a network linkage that allows the Malaysian SMEs to be benefited from accessing internationalization information and opportunities (Senik et al. 2011).

It is vital for SMEs entrepreneurs of emerging economy to know the present sources and functions of networks that highlighted by Senik et al. (2011). The reason given is that they could refer to when they need it and how to process in internationalization. They will know where to go for acquiring resources, information, and who are the one should connect and create the business relationship.

Abdullah and Zain (2011) explored practical issues of the Malaysian SMEs internationalization, such as the use of the mode of entry, reasons for internationalization, and reasons lie behind of no intention of internationalization among the Malaysian SMEs. The findings showed that the increased business profitability and financial success of SMEs is the critical reason for entering an international market, this is because the Malaysia market is considered small to generate higher revenue. Other reasons include the availability of market opportunity, level of entrepreneurs' motivation, business expansion and demand of their product opportunities. As the resources of SMEs are small and insufficient, thus, export is the most popular mode for them to enter foreign markets. Other familiar entry modes include licensing and franchising. Besides, the obstacles and uncertainties during operating abroad are the primary challenge for internationalization, followed by lack of experience, difficult to get new network and potential customers. Apart from that,

the theories of the Uppsala model and network approach are the most common use to explain the context of SMEs in Malaysia.

Recently, Anuar (2018) developed a comprehensive internationalization model that is underlying the learning process of the Malaysian SMEs (see Figure 8). The author argued that prior knowledge serves as the most critical element for SMEs internationalization. As a result, she urged the Malaysian SMEs to recruit personnel with relevant experience, especially who are equipped with inward and outward experiences. Remarkably, Anuar (2018) found that a close interaction process with foreign suppliers would ultimately lead to a higher level of foreign market knowledge and chances of internationalization. That is, a personal network with vital foreign suppliers would lead to forming trust and facilitating a new understanding of internationalization and the latest technology. To conclude, previous findings have emphasized the importance of networks concerning the Malaysian SMEs internationalization (Abdullah & Zain, 2011; Anuar 2018; Senik et al. 2010; Senik et al. 2011; Zain & Ng 2006).

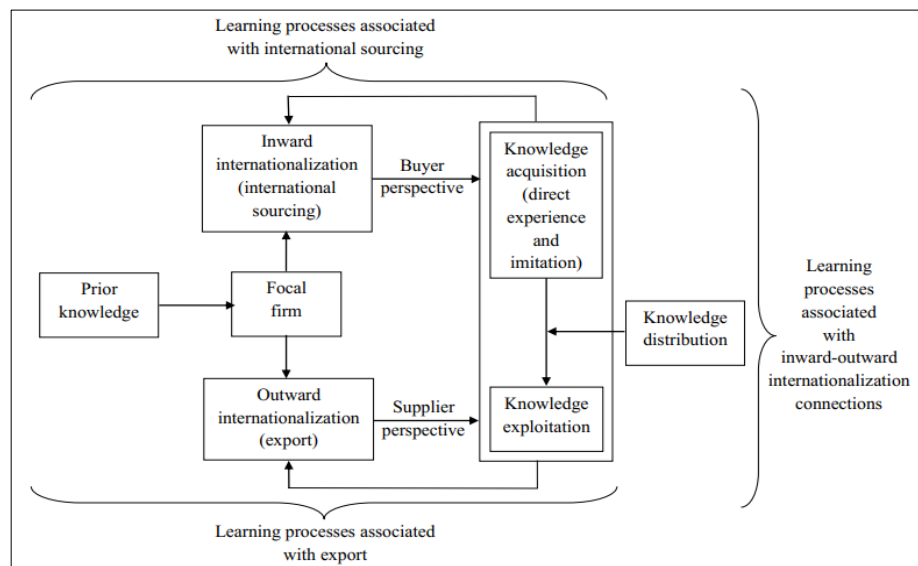


Figure 8. Learning processes of Malaysian SMEs associated with international sourcing, export, and connections between inward and outward internationalization (Anuar 2018)

3 RESEARCH METHODOLOGY

This chapter discusses the research methodology that used to examine the phenomenon of networks in the SMEs internationalization. The methods (i.e., research strategy, approach, empirical data collection, and analysis) adopted in this thesis are based on the research questions and problems, and detail of explanation will be illustrated. This thesis presents the background of companies at the end of this chapter for a better understanding of the selected Malaysian SMEs used in this study.

3.1 Method

This thesis aims to investigate and to provide a deep understanding of the phenomenon of networks approach in the context of Malaysian SMEs internationalization. Since the SMEs internationalization process is considered complicated, the opinions from practitioners are crucial for gaining comprehensive viewpoints of networks in the internationalization. For this reason, qualitative research is adopted as it could explain the phenomena (Leavy 1994) and provide a better understanding of the research context than using quantitative measurement (Gordon & Langmaid 1988). Further, qualitative research is relatively relevant in investigating the research on networks activities of SMEs (Gilmore, Carson & Grant 2001).

Apart from the reasons as mentioned earlier, qualitative research is considered the most advantages way of understanding the SMEs entrepreneurs' motivations, reasons, experiences, and actions in the context (Myers 2013), which are not applicable to the quantitative method. The beauty of qualitative research is that it provides insight into the decisions and actions of SME entrepreneurs (Myers 2013). It enables the research to obtain a comprehensive understanding of the interviewees' thoughts, as well as their experiences with actions in the context to a large extent. Thus, more meaningful and concrete findings could be derived from this method. Therefore, qualitative research is appropriate used to answer the two research questions of this thesis:

- 1) *How do networks affect Malaysian SME entrepreneurs to discover international opportunities and to operate their business in the international markets?*

- 2) *During the internationalization, what are the influences of networks on Malaysian SME entrepreneurs' knowledge, experience, and future business ideas?*

The research approach applied in this study is considered an inductive approach. It is a bottom-up approach which starts with observations, and the theory will be proposed at the end of the research process (Goddard & Melville 2004). The objective of this study is to build a new conceptual framework from the empirical data set within the context of networks of internationalization. The developed conceptual framework will be used to complement current research theory. A similarity to the statement as stated by Patton (2002), the inductive approach is suitable for a research problem that is not completely defined clearly and is not precisely explained by the existing models. As a result, it provides the chance to discover unexpected things. The inductive approach enables this thesis to understand the meaning of the Malaysian SMEs activities instead of explaining the causal relationship through a set of hypotheses.

Earlier researches on the SMEs internationalization through networks approach in emerging countries is understudied and making clear the scientific research gap exists. Also, the question about whether networks could affect SMEs in Southeast Asian emerging nations, and whether the management and coordination of networks would become an important phenomenon. Therefore, this thesis aims to fill the research gaps as mentioned in Chapter 1 by using the existing theoretical framework as a reference to study the research goals and to achieve relevant qualitative data. This study observed and analyzed how do networks affect SME entrepreneurs internationalization. Specifically, this thesis explains how do networks affect SME entrepreneurs to discover international opportunities and operate in the foreign markets and how they manage, and maintain network relationship with business partners.

3.2 Data collection and Analysis Method

Interview will be conducted to collect the data. The interview data is considered as the primary data. Myers (2013) stressed that primary data is the data gathered by a person and it is unique to the research study. This study will be based on the outcomes of the interviews from the Malaysian SME entrepreneurs in the different industry. It is

appropriate to conduct interviews to answer a question that consists of what, why, how and when.

The interview is one of the qualitative data sources used to record what the interviewees said for a topic and liable to know the people and their thinking and thoughts (Myers 2013). Semi-structured interviews were carried out to enable interviewees to have the opportunity to add valuable insight during the conversation. Some of the predetermined set of open questions were used, and new questions may arise during the conversation (Myers 2013). Apart from that, the interview conversations were recorded, and notes have been taken during the discussion to avoid missing important points for the next section of the analysis.

Five interviews were conducted to explore the phenomenon of the Malaysian SMEs internationalization. The first and second interviewee was the same person Mr Tey, he is an entrepreneur and founder of Company A1 and owner of Company A2. For company B, the owner is Mr Lim. Mr Kevi is an owner of Company C, and Mr Chew is a sales managers of Company D. The length of each interview was approximately one hour, and the interviewees are from different backgrounds and positions. However, they utilized export and franchise entry mode to expand their business into foreign markets.

Basit (2003) stated that electronic coding enables the research analysis process smoothly. As compared to the manual data coding (i.e., cut and paste the pieces of text) the electronic data coding is much quicker, accurate, and allows more codes to be derived (Buchanan & Jones 2010). Hilal and Alabri (2013) stated that electronic data coding are increasingly used by the researcher to ensure rigor in data analysis. Thus, Nvivo 11 was used in this research to facilitate the analysis of interview transcripts. It is an electronic method that uses to code the entire interviews data, and it makes the research process more efficient and accurate. Hilal and Alabri (2013) revealed that Nvivo is created by QSR International which can enhance the quality of qualitative research. Besides, Nvivo is capable of coding large and unstructured qualitative data (Anuar 2018). It enables the researcher to manage, shape, and analyze the qualitative data (Creswell 2012). Correctly, it could filter irrelevant data and leads researchers to pay attention to the most functional categories. Also, Nvivo increase

researchers' confidence in making decisions for the categories as it is clear and unambiguous.

Despite the fact that qualitative research is often used for conducting a study, many critiques exist by claiming that this method is lack of rigorousness. Therefore, to ensure the quality of the analysis, the Gioia methodology has adopted in this study. Gioia, Corley and Hamilton (2013) argued that Gioia methodology is a systematic inductive approach to new concept development and to enhance the rigorousness of qualitative research. This methodology consists of three consecutive phases that ensure the qualitative research with rigor and meticulousness (Gioia, Corley & Hamilton 2013). The study started from organizes the data from the interviews and find the similarities and differences of quotations from interviewees by making the number of categories into a manageable sequence.

Further, the categories will be labeled or shortly described (i.e., first order concepts). Subsequently, the theoretical realm is developed in the second order themes that are related to the research questions and topic. It describes and explains the phenomenon of the study which is observing. The aggregate dimensions are established based on the second order themes, and it moves to broader categories with grouping similar ideas or thoughts.

All the information from the interviewees were filtered, and only the relevant data was selected. Once the study has first-order concepts, second order themes and aggregate dimensions are derived, then it leads to building a data structure. Pratt (2008) stated that data structure is a significant component to indicate rigor in qualitative research. The reason given is that it enables researchers to configure their data quickly and present the process from original data to themes and dimensions during the analysis.

3.3 The background of firms

In this thesis, the selected five companies had met the following criteria of the Malaysian SMEs 1) the annual sales turnover are between MYR300,000 to MYR20 million 2) The firms have entered at least one international market. The sub-section illustrates a short background and explanation of each firm in term of the historical

establishment, product, firm size, financial performance, and the companies' internationalization process.

3.3.1 Company A

Company A consists of two subsidiaries as presented in below:

Company A1

The company established in 2015 and specialized in the instant beverage. The products include white coffee, lemon tea, milk tea, hot chocolate, and soya collagen. The company has three full-time employees and average annual revenue of MYR600,000. In 2016, the company started exporting to the Chinese market through local agents. The company plans to enter Vietnam, Indonesia, and Cambodia in the coming year. The company began an international market because they do not want to focus on the domestic market. The company aims to go to several global markets. The interviewee is Mr. Tey, who is the entrepreneur and founder of the company.

Company A2

The company incorporated in 2013. Company A2 is a restaurant that specializes in the German cuisines. It has a good reputation in term of its services, ambient environment, and tasty foods. The company has fifteen employees with average annual sales revenue of MYR1,200,000. Recently, it has entered the Vietnam market by franchising. The purpose to enter the international market because the owner has a network with the local Vietnamese. The interviewee is Mr. Tey, who is the owner of the company.

3.3.2 Company B

The company started incorporation in 2010, which specialize in bird's nest cultivation and commercialization. It is a traditional luxury and expensive food product due to rare and hard to find in the Asia countries. The price is approximately €2.6 to €3 per gram depending on its grade. For information, it is a common anti-aging supplement that consumed by the Chinese celebrity to maintain their youthful appearances. In

general, the Chinese believe that bird's nest could enhance immunity system, reduce body heat, anti-aging, and nourish their skin. Recently, the company focuses on two main products: pure bird's nest and concentrated bird's nest. The company has six full-time employees with average annual revenue of MYR300,000. As the Malaysian market is limited, the company started exporting their products to China and Taiwan in 2016 through the owner's network that built during his university study. Recently, it exports products through local agents to ease the international process and reduce uncertainty risks. The interviewee is Mr. Lim who is the owner of the company.

3.3.3 Company C

The company established in 2011 and specialized in designing and printing. The list of products and services include: 1) bunting 2) banner 3) poster 4) name card 5) company product catalog 6) brochure and flyers 7) sticker 8) pass card, staff ID card and membership card 9) packaging and 10) printing of letterhead, invoice, payment voucher of the company. At the moment, the company has five full-time employees with average annual revenue of MYR400,000. The reasons for internationalization include enhancing the company's reputation, expanding its customer networks, and increasing the awareness of the company. The company started entering the Singaporean and Japanese markets in 2012 through the connection of existing business in Malaysia. The interviewee is Mr. Kevi, who is the business owner of the company.

3.3.4 Company D

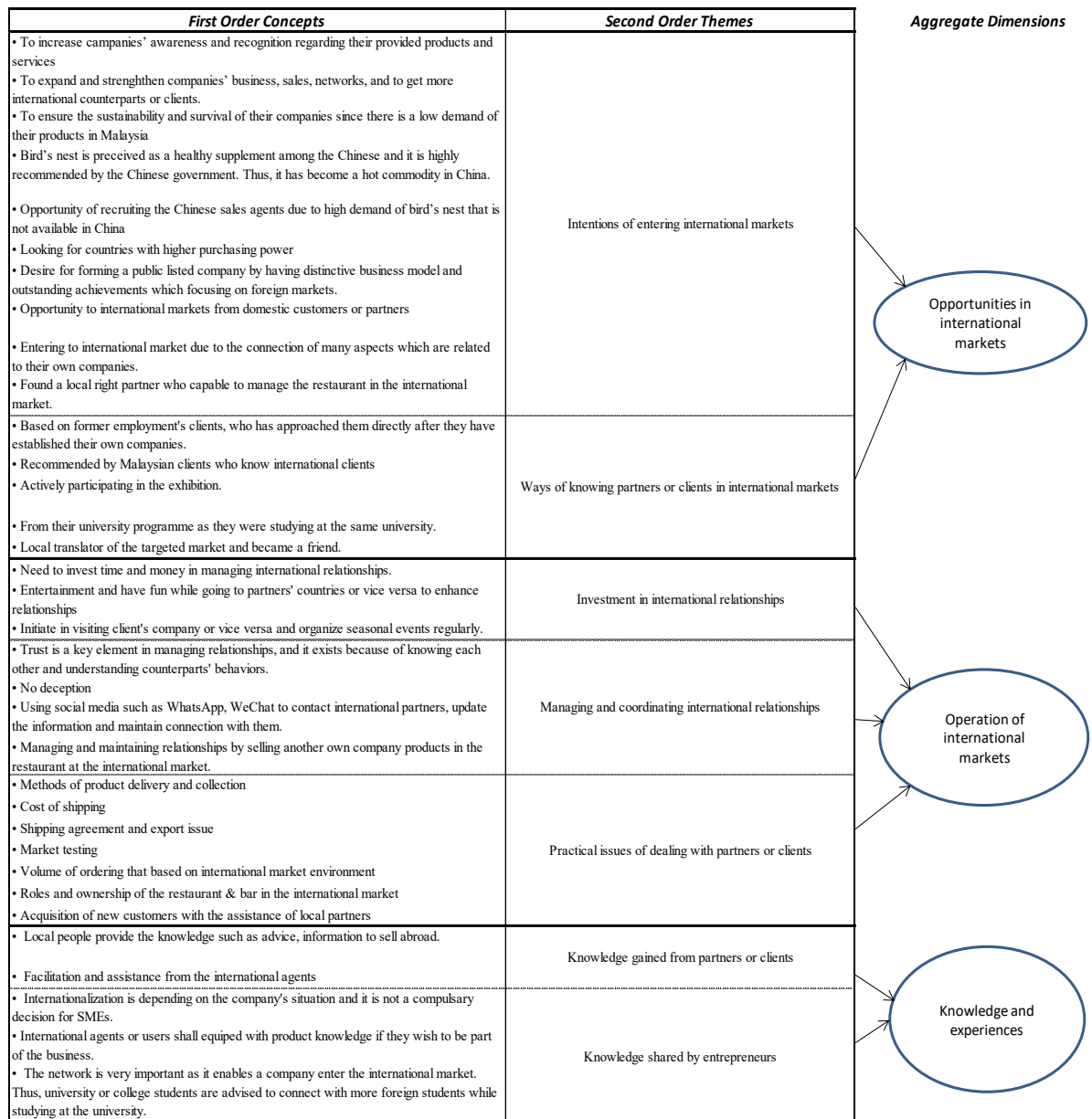
The company establishment in 1999 and it belonged to heavy industry. The founder has extensive experience and specializes in selling hardware to the automotive and air-conditioning industry. There are five products categories: metal stamping/press machine, used/recondition machine, press line equipment, metal components, and spare parts. It is a reputable company in Malaysia as it has business relationships with several well-known automobile companies (e.g., Proton and Perodua) and air-conditioning companies (e.g., Daikin, Hitachi, and Panasonic). In 2012-2013, the company started entering foreign markets, such as India, Indonesia, Cambodia, China, and Vietnam. There are approximately fifty full-time employees with average annual revenue of MYR10 million. The interviewee is Mr. Chew, who is the sales manager.

Description	Company A		Company B	Company C	Company D
	Company A1	Company A2			
Person in charge	Mr. Tey	Mr. Tey	Mr. Lim	Mr. Kevi	Mr. Chew
Position	Entrepreneur and founder	Owner	Owner	Owner	Sales Manager
Industry	Instant beverage (coffee, lemon tea, milk tea, chocolate, soya collagen)	German Restaurant	Bird Nest's supplier	Design and printing services	Hardware trading
Number of full-time employees	3	15	6	5	Approximately 50
Annual Sales Revenue	MYR 600,000	MYR 1.2 million	MYR 300,000	MYR 400,000	MYR 10 million
Year of the establishment	2016	2013	2010	2011	1999
Year of entering foreign markets	2016	2018	2016	2012	2012-2013
List of foreign markets	China	Vietnam	China and Taiwan	Singapore and Japan	India, Indonesia, Cambodia, China, and Taiwan

Figure 9. Background of selected companies

4 FINDINGS

Based on the empirical data collected from five interviews, this thesis identifies five aggregate dimensions through variety themes: 1) Opportunities in international markets 2) Operation of international markets 3) Knowledge and experiences 4) Network relationships 5) The future of international markets.



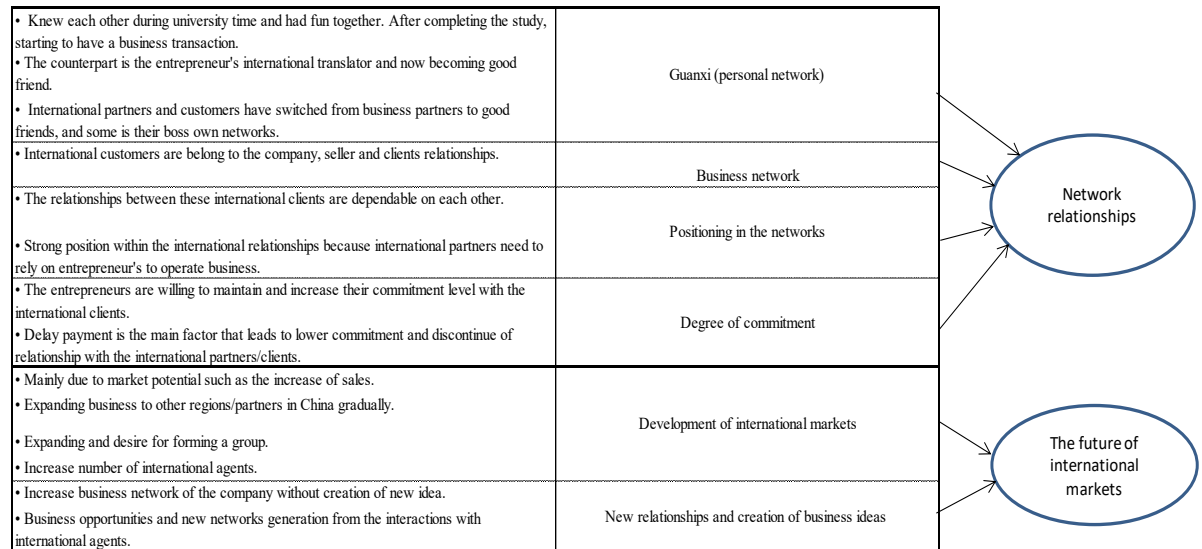


Figure 10. Data structure

Each of the aggregate dimensions and themes are briefly explained in the following sub-sections, which are corresponding to the research context and theoretical framework.

4.1 Opportunities in international market

Based on the finding, opportunities in international market consists of the intentions of SMEs entrepreneurs while entering international markets, and the ways of knowing their international partners or clients.

a) Intentions of entering international markets

Anderson (2011) stated that profit and aim for growing are the main drivers for SMEs internationalization. However, the finding showed that there are still many critical reasons for SMEs entrepreneurs to enter international markets. Apart from increasing the business and sales revenue of companies, other important reasons include high demand of their products from foreign customers, internal and external motivation, strengthen networks by getting more international counterparts or clients, and enhance knowledge. The findings are in line with Abdullah and Zain (2011) regarding the reasons for Malaysian SMEs internationalization, except for the enhancement of

knowledge. Knowledge enhancement is part of the professional development category which motivates firms to internationalize (Harder, Lamm & Vergot III 2010).

Company B: “We wanted to sell abroad because we wanted to expand our business, sales, and build our company’s networks more stronger ”

Company C: “I hope to expand my company’s business networks, increase revenue and to get more international partners or clients from the existing partners and customers.”

Company D: “The purpose of going abroad is because the company would like to increase revenues... Yes money... and want to know more people, get more customers, and expand our business networks...also to get more knowledge...”

Apart from that, two SMEs entrepreneurs mentioned that opportunities to enter international markets are because of the domestic partners or customers, which mean they push entrepreneur to go abroad.

Company C: “I think that my company’s product will go abroad because I have business relationships and interactions with existing Malaysia partners or clients. In other words, they push me to the international market...my Malaysian networks are related to the international networks.”

Company D: “Our international partners and customers are related to the Malaysia business networks and we have the relationships...We have international partners and customers.”

Since there is low demand of the company’s products in Malaysia, the entrepreneur looked for countries with high purchasing power to sustain their businesses. Similarly to the finding from Senik et al. (2010), industrial factors such as attractive markets will lead to entrepreneurs go to international. Those reasons triggered SMEs to go international rather than focus on small domestic market.

Company B: “We are now selling pure bird’s nest to China and Taiwan markets because this product has a low market in Malaysia, so we must go to the foreign markets to increase our company’s sales. If you only focus in Malaysia, this business is hard to survive and sustain...”

Company A1: “We will go to China because China has the largest population; we think that we could earn revenues from there. We seldom focus in Malaysia, because the products are difficult to sell, the price is too competitive, and there are many competitors... ”

Johanson and Vahlne (2009) stated that interesting business opportunities could be possible causes for firms to expand a business to a foreign market. A product is getting popular in an international market due to high demand from the local community has attracted Malaysia SMEs to enter that market. For example, the bird’s nest is perceived as a healthy supplement among the Chinese, and the Chinese government highly recommends it. Thus, the bird’s nest has become a hot commodity in China. Besides, the entrepreneur felt fortunate as he was able to recruit the Chinese sales agents at the time of high demand for bird’s nest.

Company B: “In recent years, especially the Chinese government and people always encourage having bird’s nest and perceived it as a healthy food product. So it is a very hot commodity recently, so we mainly aim for the Chinese market. In particular, the pure bird’s nest in the Chinese market is huge. As long as you can sell pure and genuine bird’s nest in China, then your business can be sustained.... So, I tried to ask them whether they are interested to be agents or not...”

One entrepreneur said that knowing a local right partner who is committed and capable of managing a business in the targeted market has motivated him to enter that market. This phenomenon is related to the revised model of Uppsala internationalization (Johanson & Vahlne 2009), they illustrated that firms’ relationships and networks could trigger them to internationalization. They think that firms go abroad because they have significant relationships with partners who are participating in developing the business to international markets.

Company A2: “For the instant beverage company, I would like to go foreign market like Vietnam, but I cannot find the right agents... But I have a Vietnam friend who capable to manage the restaurant business, after several round of discussion we starting to cooperate with opening SOP in Vietnam...”

b) Ways of knowing partners or clients in international markets

The analysis shows that there are four ways for entrepreneurs to know their partners or clients. The most common method is to participate in exhibitions actively. SMEs can know new partners, clients or anyone from an exhibition and this is the most effective ways of expanding their company’s network and internationalization. This phenomenon is in line with the studies by Senik et al. (2011), most of the experts recognized that local or international exhibitions and seminars are considered a proper channel for SMEs to create more networks within inside and outside Malaysia. Besides, a middle person is a suitable connector in linking one person to another. Kontinen and Ojala (2011) stated that the third party prefers an exhibition organizer could facilitate the network relationship in between buyer and seller. This statement is connected to our findings.

Company A1: “The instant beverages company entered to Chinese market because I knew a Malaysian organizer who was responsible for the exhibition. I got the information and network from him.”

Company B: “Okay... We will go to China to participate in the exhibition, to improve our quality, and then we can meet new customers during the exhibition, and then we can increase our sales revenue. We will go to China once a year. There are many places in China that have bird’s nest exhibitions in a year, the exhibition will be organized in Shanghai, Guangzhou, Nanning, and Beijing, mainly in big cities. I had participated in the Shanghai and Guangzhou exhibition before..”

Company D: “Our company knew these international partners and customers through exhibitions, and the opportunities are also from the exhibition. Our company participate two to three exhibitions a year.”

Secondly, entrepreneurs know international counterparts because of the domestic counterparts. Johanson and Vahlne (2009) stated that a firm could enter a foreign market because it has good relationships with some important partners, they can be a home or local partners.

Company C: "I knew my Japanese client from my former company that I worked before. Once he noticed that I have my own company, and then he contacts me directly to request my graphic design and printing services. Then, I got my Singapore clients from existing Malaysia clients, because he satisfied with my printing and quality, so he introduced his friends to me. Besides, I knew another Singapore client from an existing Malaysia clients."

Thirdly, an interesting finding is that the entrepreneur knows his current partners (i.e., the Chinese market) from previous university programme, where they were studying at the same university. Senik et al. (2010) highlighted that networks and relationships are perceived as a significant role to bring SME to international markets especially from personal relations, such as friends, students, colleagues, family, or relatives. This could be seen that those partners or clients who know the entrepreneur during their campus life are useful and easy to approach when it comes to an international market.

Company B: "Yes, I knew them while studying at the university, and we keep in contact with each other until today."

A network relationship with a foreign partner or client could lead the SME entrepreneurs to internationalize. One of the entrepreneurs hired a local translator for his previous business, and after a few years, they became good friends. He then utilized this network opportunity to enter the Vietnamese market by establishing a new restaurant. This is because his friend is from Vietnam and he is familiar with the market and culture. Coviello and Munro (1995) stated that network relationships of a company affect the international market decision.

Company A2: “My Vietnam partner is my friend. It was my previous translator, then we start cooperating for opening a restaurant in Vietnam as he is familiar to local culture.”

4.2 Operation of international markets

While operating in the international markets, the actions and behaviors of SMEs entrepreneurs are considered essential to them in continuous development in that markets. In general, the issues such as investment in international relationships, managing and coordinating international relations, and practical issues of dealing with partners or clients are the main activities in the global markets. Other than that, problems and dilemmas are a typical process that happens while operating abroad.

a) Investment in international relationships

Most of SMEs entrepreneurs highlighted that they need to spend time and money in managing the relationships with their international counterparts. They will have attended to informal activities, such as entertainment, drinking, eating, and organizing seasonal event regularly. However, they consider such informal activities as an investment to enhance their network relationships. This finding is contrary to Yi and Ellis (2000) that argued creating and maintaining guanxi relationship has been perceived as a disadvantage because of time-consuming and expensive. In contrast, the finding reveals that some of the interviewees think that guanxi is essential especially in dealing with Asian partners or dealers. This finding is coherent with Fan (2002), which shows that guanxi is a significant factor when managing business in China as it is an essential aspect in every enterprise, however, merely managing guanxi is not enough for achieving business success.

Company A1 and A2: “Sometimes I will go to China and Vietnam to meet them, and we will talk about business when eating or drinking. I just need to spend some time to talk with them and keep in touch to maintain our business relationships, of course, I need to spend a certain amount of money on these relationships, and it is kind of investments.”

Company B: "If I go to China, such as Shanghai, I will contact those agents who stay nearby and then we will come out to meet and have fun. Also, if they come to Malaysia, I will meet them and bring them to eat and entertain them. Maybe I will accompany them for two or three days. It can be said as entertainment and enhance our friendship."

Company C: "This is very common in Malaysia, drinking, or need to spend more time and money, these things are sometimes not what you want, but because of the environmental impact you need to do it.."

Company D: "My boss will go to foreign countries to meet his partners and customers from time to time, or they will come to Malaysia sometimes... example during the durian season, my boss will invite them to Malaysia enjoying and taste durian, this is a way to develop good relationships with them... Whether it is in Malaysia or in a foreign country, we always invest time and certain money in relationships with partners or customers. It is a must in order to build good relationships."

b) Managing and coordinating international relationships

As compared to the investment in international relationships, this thesis classifies managing and coordinating relationships as a formal way of entrepreneurs in managing and strengthening their network relationships with foreign counterparts or clients. Johanson and Vahlne (2009) highlighted that learning to coordinate a relationship between partners is crucial. Trust has been known as an essential element; it has been shown in the research on relationship development (Morgan & Hunt 1994) and business networks (Johanson & Mattsson 1987). Our finding is significant to the above statement; all interviewees emphasized that trust is a crucial element in managing relationships and no deception in the business transactions. Although it had been decades ago, trust is still considered a vital component of developing and maintaining relationships.

Company B: "Because we knew each other before, so we will have trust. It enables me to enter international markets easily. It is impossible to find someone who does not know and sell him...people will not believe you, so I will be easier than others because we knew each other. So our trust is developed among each other."

Company C: “I have long-term business relationships with these customers, we knew each other’s behaviors and trust each other, even if they want to us to provide them designing and printing services, we will do it for them even they have not paid yet. We believe that they will make payment to us once they have received the products... Trust is very important to manage the relationships.”

Based on the data, the advanced technology such as social media (e.g., WhatsApp, WeChat) enables most interviewees to go international market conveniently. They posted their products on social media and updated their business performance among the existing customers. Such information serves as evidence that the business is active and possible to attract new customers. Besides, they use social media to contact international partners frequently, exchange information, and maintain the connection. This is considered one way to build trust among them. This phenomenon is in line with Abdullah and Zain (2011) stated that the development in information and communication technology (ICT) had increased opportunities for SMEs to broaden their business abroad. Specifically, ICT resolves communication problem, especially for a long distance business.

Company A1 and A2: “Mostly, I used WhatsApp to keep in touch with my international partners, the most important is trusting each other and reliable...and not to deceive them..”

Company B: “Nowadays WeChat is very convenient for us to contact. Then we will update the information regarding the bird’s nests, inquiry, and customers’ orders to prove that we are still doing this business...These actions repeatedly, thus, show that the deception is relatively few... we often update, and put transaction records, and also upload customers’ remittance, these actions will increase the trust...and long friendships with our agents, so we do not have any communication problems...”

Company D: “Yes, the most important thing is to use WhatsApp, WeChat to contact with international partners and customers, and trust is also important...”

c) Practical issues of dealing with partners or clients

Based on the data, two out of five interviewees mentioned about dealing with the shipping issues—for example, the methods of product delivery and collection, cost of shipping, shipping agreement, and export issue. Knight and Cavusgil (2004) stated that the rapid growth for a business to an international market could be due to the advanced information and communication, transportation and logistics. The entrepreneurs appreciate the advanced communication and transportation recently which enables them to discuss the delivery issue more appropriately, and further, they can deliver product smoothly in a short time.

Company B: “I need to find the right method to deliver the product and understand extra fees that will be imposed. Everything I started from zero. I didn’t understand these things at first, just to learn and explore slowly.”

Company C: “I will send his products to Japan or elsewhere he will collect by himself when he comes to Malaysia...and we will discuss the weight and cost of delivery, which cannot exceed the estimation.”

Apart from that, the tested of international market has carried out in the early stage which had created positive outcomes for the entrepreneur to further develop in that international market. He decided to enter the market by exporting and they would like to further expand in the future. This situation is slightly similar to Swedish companies which entered international markets by exporting at the beginning (Hörnell, Vahlne & Wiedersheim-Paul 1973). They deal with intermediaries or agents of the local companies (Johanson & Vahlne 2009). Besides, the entrepreneur mentioned that the volume of orders is based on international market environment.

Company B: “at first my friends are willing to try for selling the bird nest, and to know the preference of local customers... then because we have more sales then we continue this business deal until today. Some of my friends only buy for themselves...then they will introduce more friends to me if they like the taste and the quality, so my international customers have been increasing. Some of my friends are agents, and they have their shops in China. Some of the shops are bird’s nest dessert shop, some of

them will sell to the relatives and friends, there are total nine agents in China, and Taiwan is currently one.”

Company B: “The quantities of selling are not fixed and depend on their sales, During the New Year and the Mid-Autumn Festival, they might import double or triple than as usual...during these festivals, many of Chinese will purchase and make it as a gift, bird’s nest as a gift is very common in the Chinese market...”

While dealing with an international partner, the roles and ownership of a business in that international market is crucial to be discussed and negotiated clearly to avoid unnecessary business dispute in the future.

Company A2: “The instant beverage products produced by my other company are selling in the restaurant & bar... Example: the ice lemon tea served in the restaurant & bar is produced by another company of mine... So we sell it to SOP restaurant & bar in Vietnam. Although those responsible partners are new but they are responsible for their roles...so our company takes 60 % shares and my partners take 40% shares, then they only need to work hard...”

4.3 Knowledge and experiences

This dimension is related to the knowledge and experience possessed by SMEs entrepreneurs in their work profession. Besides, they have gained new knowledge and information from their international partners or clients while dealing with them. This finding is in line with Davies, Leung, Luk and Wong (1995) that demonstrating a guanxi network could be claimed as a source of information. Further, well-maintained guanxi induces knowledge sharing between parties while operating in international markets.

a) Knowledge gained from partners or clients

While dealing with international partners or clients, most SMEs entrepreneurs gain knowledge through exchange opinions or information sharing. The local partners or clients are willing to provide advice, the latest news, information, or even new opportunities to operate abroad. This finding is similar to the statement claimed by

Fuller-Love and Thomas (2004), a company can stay at the forefront of legal aspect, technology development, and other essential aspects have come from the information provided by network actors. A critical remark is that due to mutual trust, SME entrepreneurs receive assistance and facilitation from their local agents when they were in need of support in the foreign markets.

Company A1 and A2: "From the China agents, I learned that Chinese people like the imported coffee and coffee beans. In Vietnam, I know that Vietnamese people are willing to spend money. Although they are low income, such as MYR1700 for a month but they are willing to spend MYR700 on for eating and drinking. These information are shared by my partners because of trust... we knew each other and long relationship...we share this kind of information during our drinking time or having meal"

Company B: "I knew these Chinese agents while studying at the university; they gave me the opportunity and assisted me to enter the Chinese market."

Company B: "Other than getting information from my agents, they also mentioned no deception during the business transactions... No unethical processing in the bird's nest, they want 100% natural, and then as long as you have completed the first transaction, it will be easier to do business later. Although the color of natural and genuine bird's nest is not as good as expected, but they don't mind, they just afraid to about fake bird's nest."

Company C: "They are local people who provide me the knowledge, latest news and information, and opportunities to sell abroad...those are really useful for my business... for example, local things are not good, no good quality and the pricing issues..."

Company D: "We have gained knowledge and experienced... and also information from our international partners and customers while operating in international markets. However, they mostly talk to my boss only... in fact, this industry emphasizes on experience, the more experience you gained, the better for your company."

b) Knowledge shared by entrepreneurs

One entrepreneur mentioned that internationalization is depending on the company's situation and it is not a "must" decision for SMEs.

Company C: "I have to say, going to the international market sometimes depends on the industry. Some industry doesn't pay much attention to go to the international market...but for my industry, still okay, if got order then we will do, the more the better."

Apart from that, some entrepreneurs emphasized that the network is vital as it enables a company to enter the international market. This phenomenon is in line with Johansson and Vahlne (2009), a firm internationalize is depending on its relationships and network. Thus, university or college students are advised to establish a connection with more international students while studying at the university

Company A1 and A2: "For me, the network is very important for my companies to go to the international market."

Company B: "Networks are very important to me as it enabled my company to enter the international market. I wish I could know more Chinese and Taiwanese during my university time as my university is an international university."

One SMEs entrepreneur recommended that international agents or users shall equip with product knowledge. With sufficient knowledge, they can differentiate the genuine versus non-genuine product, and able to recognize the non-genuine product that might harm to consumers.

Company B: "The Chinese's knowledge of bird's nest is not that strong, because it is just turning popular in this few years. I think if they want to do bird's nest business or like to eat bird's nest, they may wish to enhance their knowledge of bird's nest."

4.4 Network relationships

The finding presents that guanxi (personal network relationship) and business network exist among the Malaysian SMEs in internationalization. Besides, the position of SMEs in their international networks and their commitment level to their networks were analyzed, and the result reveals favorable outcomes.

a) Guanxi

Luo (2007) stated that guanxi is significant in Chinese society and has been known as an inevitable factor in managing the business with a Chinese businessperson for decades. Chinese ethnic firms tend to foster a personal relationship in their business to ensure their business could be performed smoothly. From the interview data, one entrepreneur said that he knew his business partners during university time and had experienced fun together. After completing their studies, they started to have a business transaction until today because of a good personal relationship. As Luo (2007) mentioned that developing and maintaining guanxi is common attention occurred to entrepreneurs, managers, officials, or even university students.

Company B: "It is my own personal relationship. During university time, we just students only, no business deal at all. We had fun together. Then after completing the study, I started to know about bird's nest opportunity and coincidentally they were in their own country."

Apart from that, findings revealed that one of the entrepreneur's counterpart was his former business translator, they keep contacting and maintaining the relationship, further becoming a good friend and now they are operating a new business together. Yeung and Tung (1996) illustrated that guanxi could support and reinforce because of continuing connection and interaction. Positive consequences can be occurred if well maintaining this relationship. Also, the data demonstrated that international partners and customers switched from business partners to good friends, and some of the international business network relationships are derived from the business owners' personal networks.

Company A2: "This partner used to be my translator and now we are a good friend. Besides, I saw that it was a business opportunity."

Company D: "These international partners and customers have switched from business partners to friends, and some is my boss own networks..."

b) Business network

One entrepreneur illustrated that his relationship with international partners belongs to the company's network, and he gained a lot of information and knowledge from them, even there are only seller and client's relationships. This finding is a coherence to Johanson and Vahlne (2009), which explains that a business network is viewed as a firm can acquire knowledge about its partners such as their needs, capabilities, resources, and other through the exchange in a network.

Company C: "I will say that my business relationship with those international partners is belonged to the company, rather than myself personally. They will tell me their ability and needs...and also give me useful information"

c) Positioning in the networks

Two out of five entrepreneurs expressed that they have a strong position within the networks because their international partners need to rely on them in the business operation, which means that they are considered as significant partners within their networks.

Company A1: "My instant beverage company has a quite strong position with these international partners; some of them need to rely on my machine to operate."

Company D: "Many industries have to use our products and machines to further produce their products. For example, the automotive industry, the air-conditioning industry, the hardware industry, heavy industry, ships and aircraft need to use these products and machines, so our position in this network can be considered strong. We need revenues and they need our machines."

Meanwhile, three entrepreneurs indicated that the relationships with these international partners or clients are considered dependable and they enjoyed the relationships with them. Johanson and Vahlne (2009) illustrated that actors within a network would engage in numerous interdependent relationships. They need those relationships to ensure a smooth operation in international markets.

Company A2: "The restaurant position in this network is considered good because we need each other to operate business and my partner could provide the knowledge and experience which achieved requirement."

Company B: "I feel that we are only at the beginning stage. we need each other. They can get reasonable prices and natural bird's nest from us...We also need them to help us sell these bird's nests. I think both sides need each other; we have relied on each other..."

Company C: "I think that the relationships between these international clients are considered well and the relationship with one the Japanese client is actually quite closed. He needs our company service because he likes our design, ideas, suggestions and printing quality. He will come to us every month and we are welcome him and happy to serve him and he will bring some business for me."

d) Degree of commitment

Johanson and Vahlne (2009) mentioned that the commitment level of a firm to its counterpart will change, either increase or decrease the commitment in the relationship. The finding revealed that all SMEs entrepreneurs are satisfied with their network relationships with international partners and clients. They are willing to continue maintaining and increasing their commitment level with their partners and clients. The finding is consistent with Johanson and Vahlne (2009), which explains the extent of commitment would persist and increase within a network relationship when a firm or partner evaluates the relationship favorably.

Company A1 and A2: “I would like to maintain a moderate commitment level with my Chinese agents and will increase my commitment level with my Vietnam partners.”

Company B: “I feel that the relationships in between my agents and me are not only in term of business relationships. We considered our relationships as a good friend. It is not just a money transaction. When they came to Malaysia, I will go to meet them and had fun together...I would say that we are in good relationships...a very worthy relationship.”

Company C: “From the past until now, the company relationships with those international clients are maintaining and also increasing, we will commitment more in the relationships...not decrease. But if the payment is not up to our expectation, we will have a lower commitment level with that client or company, and we do not want to continue...it is better for us to move forward by finding other new international clients...”

Company D: “For sure, our company would like to increase the commitment with these international partners and customers as they created positive outcome... but is depending on the situation.”

4.5 The future of international markets

Mostly, SMEs entrepreneurs think about their future in the international markets when operating abroad. Therefore, the development of international markets, new relationships, and the creation of business ideas have been analyzed.

a) Development of international markets

According to the data, some entrepreneurs wished to increase the number of international agents in the international markets. Others illustrated that they are gradually expanding their business to other foreign regions to get more revenues. Besides, one entrepreneur said that he and his partner have been discussing and communicated well about their future business. They wished to open a second restaurant in that market and intended to expand the business to other countries. A

finding that is in line with Granovetter (1985) stated that the actors would share development mutually and willing to give away individual power for a specific task when the actors in a relationship are connected.

Company A1: "Currently, I have one Chinese agent, and for the second agent... we still discussing the contract. I would like to expand my international network by finding more agents, but for now... I do not look for it because I want to focus on researching my beverage products."

Company B: "I have Chinese friends in China. Because the sales in China are quite good, so I will start slowly and develop this business...I will find more agents and customers or recommend by my current partnes.Usually, 90% of my company's revenue is from China... we wish to expand this business to those countries that people want to buy and consume bird's nest...but the Chinese market is still the biggest. Most of the bird's nest in the world is sold to China."

Company A2: " I have discussed with my partner, as long as this first restaurant operates well, then they do not need to come out any money for the second restaurant. Our company will come out all the expenses and they just need to manage. This is what we are going to do...If our companies operate in this way, then we will be easier to enter other countries in the future, and there are many subsidiaries in my group, which can be connected."

b) New relationships and creation of business ideas

The new relationships and creation of new knowledge and business ideas exist in the network relationships between entrepreneurs and their partners or clients. Johanson and Vahlne (2009) stated that exchange and interaction with network partners allow a firm to gain new knowledge. The finding showed that three out of five entrepreneurs highlighted that they learned business opportunities, product knowledge, and new networks through the interactions with international agents.

Company A2: "In Vietnam, I have new international networks and we plan to have more franchises."

*Company B: “I can expand my networks through my agents, and some product knowledge and business opportunities have created during the interactions with them, such as *Ophiocordyceps sinensis* – it is an expensive traditional Chinese herb which can only be produced in China, they explained the positive effects could bring to consumers, thus I import it from them because of the reasonable price... without the cost from the middleman. The price that they offered to me is considered low in Malaysia market. Another business opportunity is importing abalone from my agents; the abalone in Malaysian is imported from China. I received many benefits directly from my agents, for example, price, business idea... So I got the advantages compared to other people.”*

Company D: “Our company is able to expand networks in international because of these international partners and customers... then we have more businesses... besides, there are business opportunities during interaction with them, but my boss is more conservative, he thinks to focus on this industry, he does not want to go to other industries.”

Sometimes, it is not easy to discover or identify a new business opportunity and network through counterparts, but with having trust with each other in the relationship might resolve this issue. Johanson and Vahlne (2009) highlighted that trust is essential in the beginning stage and also for a long-term relationship, in which an opportunity can be created and exploited in the relationship.

5 DISCUSSION

5.1 Key results

The finding of this thesis revealed that networks serve as a critical factor for Malaysian SMEs to internationalization. This result is coherent to the existing international studies which stated that the network relationship is useful to assist and enable firms to penetrate foreign markets (Coviello and Munro 1995; Johanson and Mattsson 1988; Zain and Ng 2006). Figure 11 presents an empirical model that illustrates the internationalization of Malaysian SMEs through networks approach. In this regard, this empirical model serves to explain the two research questions as formed in Chapter 1.

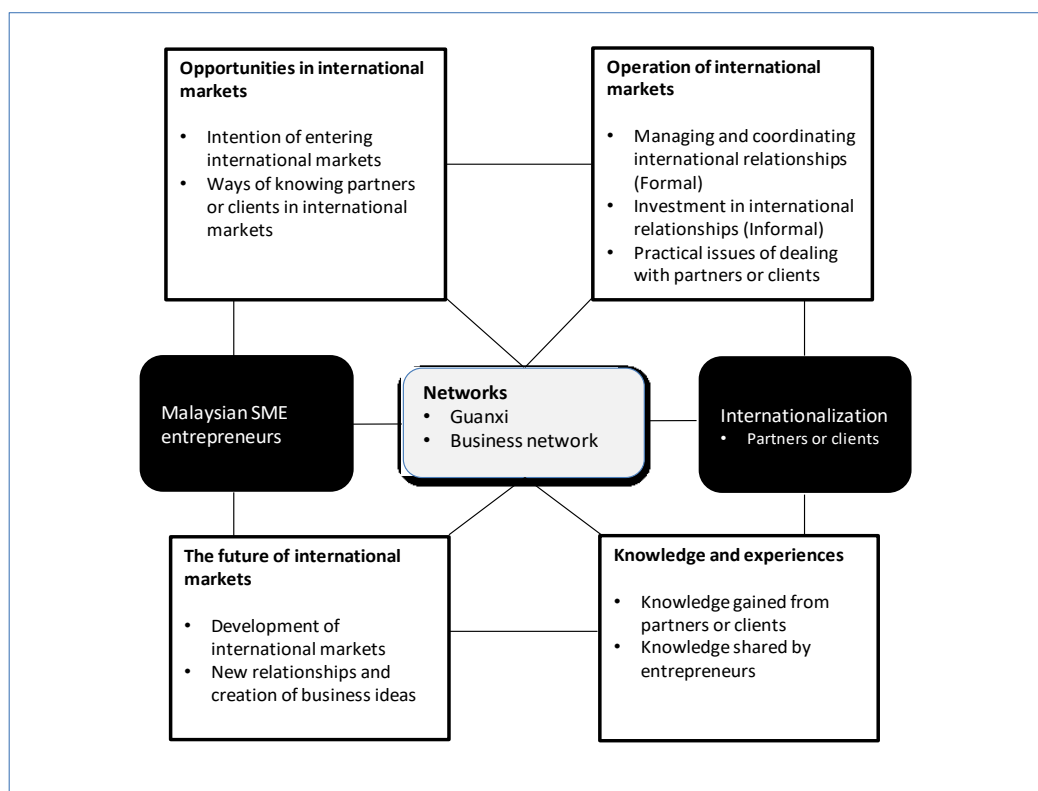


Figure 11. The internationalization of Malaysian SMEs through networks approach

Research question 1: How do networks affect Malaysian SME entrepreneurs to discover international opportunities and to operate their business in the international markets?

Opportunities in international markets

First and foremost, this model identifies two core elements that lead to the discovery of opportunities in international markets among Malaysian SME entrepreneurs.

There are nine intentions of Malaysian SME entrepreneurs to go abroad:

1. To increase sales revenue and profit
2. To expand and strengthen networks of company
3. To sustain their business due to low demand in the domestic market
4. High demand or shortage of supply for their products in the foreign market
5. Entrepreneurs' internal and external motivations
6. Foreign markets advised by business partners or clients
7. Attractive market
8. Interesting business opportunities, and
9. To enhance knowledge

Besides, this thesis found that Malaysian SME entrepreneurs could know more international partners or clients through attending exhibitions regularly and partners from previous business collaborations, which is in line with Senik et al. (2011). Interestingly, the findings revealed that international partners or clients could be known through a relationship with a former freelance worker, a well-established friendship during university life, and recommendation by partners or customers.

A relationship with a former freelance worker is where a non-committed business relationship has changed to a personal relationship, and due to mutual interest and benefits gained in an international market, this relationship later switches to a business relationship in the international market. The explanation given is that both parties maintain good contact with each other and this has increased mutual trust, thus turning them to business partners.

A well-established friendship during university life is where entrepreneurs keep contacting and maintaining the relationship with their university friends. Thus, when entrepreneurs wish to internationalize a product to a specific foreign market, they could seek help from their university friends—who are currently staying in that country to conduct market testing. Entrepreneurs could further ask for a recommendation for a potential business partner if there is a positive result of foreign market testing.

A recommendation by partners or customers occurs when entrepreneurs have built a positive reputation with their existing domestic and foreign partners or clients. Subsequently, their current partners or clients are willing to recommend them a business partner of an international market due to the entrepreneurs' credential.

Operation of international markets

Figure 11 shows that Malaysian SME entrepreneurs use two distinct forms (i.e., formal and informal) in handling the operation of foreign markets. A formal form is referred to managing and coordinating a relationship with their partners or clients by focusing on the trust element, which ensures no deception during the business transaction. Trust is a significant element and exists in many types of research such as relationship development (Morgan & Hunt 1994) and business networks (Johanson & Mattsson 1987).

Another way of building trust is by using social media, such as WhatsApp and WeChat to manage and coordinate the relationships with their partners or customers. First, social media solves a long-distance communication problem (Abdullah & Zain 2011). Second, social media app (i.e., WeChat) mitigates remittance issue as this app is equipped with online banking feature. That is, Malaysian SME entrepreneurs could receive payment from any business partners as long as they have activated their banking features on the app. Thus, the finding of this thesis suggests that WeChat is essential to Malaysian SME entrepreneurs in managing and coordinating their relationship with the Chinese business partners. The reason given is that WeChat has a direct impact on trust forming since it relates to business operation, such as payment, discussion of shipping method, cost of shipping, shipping agreement, export issue, and

after-sales follow up. Further, the Chinese business partners could follow entrepreneurs' public posts regarding their products update, the status of the company, comments, and inquiries from the existing or other business partners.

An informal form refers to entrepreneurs are willing to spend more time and resources to participate in informal activities that are not related to the operation of the business, such as personal treats for entertainment (e.g., drinking and Karaoke), pub crawl, food hunting, private tour guides, and other informal event (e.g., durian festival). The finding revealed that Malaysian SME entrepreneurs consider the listed informal activities as a way of maintaining and improving the relationships with their Chinese counterparts, rather than perceived as time-consuming and costly operating activities that argued by Yi and Ellis (2000).

The role of networks in the discovery of international opportunities and operation of international markets

The findings show that networks play a crucial role to assist and enable Malaysian SMEs to internationalization. Many SME entrepreneurs stated that their opportunities to international market came from their current partners or clients. Usually, entrepreneurs utilize their existing networks to assist them to internationalization because they do not have sufficient knowledge and experience about a targeted international market, such as helping in market testing, seeking for business partners, targeting market, promotion, and product distribution. In term of operation in an international market, Malaysian SME entrepreneurs use networks to enhance their position in the international markets. In this regard, networks contribute to the smoothness of the operation and a profitable long-term business relationship.

Surprisingly, only one entrepreneur stated that the relationship with business partners belongs to the company. He argued that it is hard for him to switch from a business network to a personal relationship. Most of the Malaysian SME entrepreneurs are more emphasizing on guanxi (vs. business network) while dealing with the partners or clients in the Asian markets. As such, they are willing to invest personal times and financial resources in the development of guanxi. The reason given is that fostering guanxi with business partners could help to ensure their business could be performed

quickly, such as business payment and operating arrangements. This finding is in line with Davies, Leung, Luk and Wong (1995) highlighted that smooth payment is one of the benefits of building guanxi.

Further, well-maintained guanxi overcomes challenging practical issues that require voluntary efforts from the business partners of the international market, such as helping in getting the approval of an application to provincial government and assisting in the communication of customs clearance. Based on these findings, the model suggests that Malaysian SME entrepreneurs are more interested in creating a guanxi network that brings numerous benefits more than a business network. Thus, Malaysian SME entrepreneurs tend to treat a business partner as a personal relationship, which is contrary to most Western countries that view business relationships as business networks.

Research question 2: During the internationalization, what are the influences of networks on Malaysian SME entrepreneurs' knowledge, experience, and future business ideas?

Knowledge and experiences

While operating in international markets, Malaysian SME entrepreneurs could gain valuable knowledge from their partners or clients during the interaction and exchange of business opinions. The findings are in line with the label of learning, creating, and trust building which is stated by Johanson and Vahlne (2009). It is a two-way process where business partners normally are willing to share knowledge and exchange the latest news (e.g., market trend), information (e.g., market demand), and advice (e.g., market testing) to the other party. For this reason, entrepreneurs would be able to receive support and assistance from one another when a business relationship is formed.

The future of international market

The results of empirical data revealed that most Malaysian SME entrepreneurs would consider about the future development after expanding their business in an international market. Generally, they plan to increase their sales volume by recruiting

more agents in that particular global market, and such phenomenon is evidenced in China, Taiwan, and Vietnam. Apart from projecting on the current business operation, Malaysian SME entrepreneurs are open to any new business opportunity in the existing foreign market or expanding their current business to another new international market with the existing international partners or clients. Further, they are willing to operate a new business in Malaysia by importing products from the foreign markets.

The influences of networks on Malaysian SME entrepreneurs' knowledge, experience, and future business ideas

The finding of this thesis shows that *guanxi* (rather than business networks) has tremendous influences on receiving up-to-date information (e.g., updates of the local market) and gaining practical knowledge. The possibility of sharing detail knowledge occurs typically with a specific person of the Malaysian SMEs, rather than anyone else of the company. For instance, sharing happens on the business owners and during non-business activities (e.g., drinking and private message on WeChat). The reason given is that mutual trust will be formed whenever *guanxi* is built. That is to say that business partners start trusting each other when they initiate a personal relationship between them. Such trust forming process would encourage the sharing of knowledge and experience between Malaysian SME entrepreneurs and their partners or clients. Trust can replace the knowledge if an entrepreneur lacks local knowledge. As the trust is establishing and getting stronger, Malaysian SME entrepreneurs will believe on their partners or clients. Subsequently, they would learn and create new knowledge from them and increase their commitment level into the relationships.

The result of empirical data revealed that Malaysian SME entrepreneurs perceived maintaining a personal relationship with the right international partners is considered crucial in identifying and recognizing new opportunities in the existing foreign market. It is challenging for Malaysian SME entrepreneurs to discover new opportunities if they do not build *guanxi*—an excellent personal relationship in a new business environment (i.e., international market). Due to trust forming that resulted from *guanxi*, trust helps to reduce additional effort in discovering new opportunities in the existing global market. The reason given is that a trusted personal relationship would induce foreign partners to start a discussion with the entrepreneurs if there is a potential

new business. Thus, the future development of SMEs in the international market is highly influenced by the degree of guanxi with international partners or clients.

5.2 Theoretical contributions

This thesis contributes to current literature of the Malaysian SMEs internationalization by integrating business network internationalization process model (Johanson & Vahlne 2009) and guanxi (Davies, Leung, Luk & Wong 1995; Lee, Pae & Wong 2001; Fan 2002).

First and foremost, this thesis contributes to the internationalization literature by including two aspects. First, nine reasons are found to trigger Malaysian SMEs entrepreneurs' intention of entering international markets. The current thesis adds to previous literature (Abdullah and Zain, 2011) by proposing three additional reasons for internationalization, including the Malaysian SMEs wish to expand and strengthen its network, foreign markets as advised by business partners or clients, and they want to enhance knowledge. Second, this thesis contributes three additional ways of knowing current partners or clients in a international market, including from a relationship with a former freelance worker, a well-established friendship during university life, and recommendations by partners or customers. All of these are connected to networks, the actors are willing to collaborate in the business as they have established a long-term business relationship, to which they perceive a business collaboration could lead to mutual benefits and a win-win situation.

The revised model of the business network internationalization process serves as a primary guideline for this study. While conducting an internationalization research, many Western companies in the existing literature are more function to Johanson and Vahlne's (2009) revised model. However, differences are found in the Asian SMEs, such as in Malaysia. Despite the facts that this revised model is relevant to the Malaysian SMEs phenomenon, yet the main findings of this thesis show that guanxi elements are crucial and essential in internationalization among the Malaysian SMEs. Therefore, this thesis has created a new theoretical framework by updating the revised model with existing theories, further, a comprehensive phenomenon for the current Malaysian SMEs internationalization is presented. In the context of Malaysia, the

business network is considered as a vital element, but it is not prominently emphasized by the Malaysian SME entrepreneurs as business network and guanxi are overlapping. In this regard, the Malaysian SME entrepreneurs are more focusing on the development of guanxi for their businesses.

The practice of guanxi in real life business can be evidenced from Robert Kuok Hock Nien, a prominent Malaysian Chinese business leader, or better known as the “Sugar King of Asia,” who emphasizes on personal connections and resources throughout his entrepreneurship journey. In 1949, he formed Kuok Brothers Ltd company with his brother. At that time, it was a small business that merely involved rice and sugar trading. Their business started expanded to international markets in 1973 because two Chinese officials told him secretly in Hong Kong about the shortage of sugar in China. Since then, Robert Kuok entered China market through established personal relationships with the leaders in China (Hing, Cheok & Ping 2013). Besides, guanxi can be connected in between business and politics. Robert Kuok is a formidable representative of guanxi economics. For instance, he assists in resetting the trade relations between Malaysia and China recently (Teoh 2018).

While dealing business within or outside Malaysia, Malaysian SMEs prefer to build guanxi network more than the business network with their customers or business partners as this is related to the social culture. They believe guanxi could lead to receiving special treatment, moral supports, advices, business information and knowledge, resources and services, or even a new contact. The interdependent relationship commonly occurs in the Malaysian society. The culture and beliefs play significant roles to direct Malaysia SMEs to build guanxi with their international counterparts especially in Asian countries. Although Malaysia has different ethnics, but they are considered group-oriented rather than individual-oriented (World Business Culture 2019). Malaysian like to share their knowledge, information, news and even foods with others. For instances, food sharing behavior is a way to strengthen guanxi in the business which is evidenced in Malaysia, this is entirely different from Western companies. Western people prefer having their own meal and seldom sharing their cuisine on the dining table (Xiong 2017; Mabel Kwong 2018).

Apart from *guanxi* element, this thesis adds to the existing literature by including the effort of managing and coordinating international relationships (formal), and investment in international relationships (informal). Trust is a significant element while building and maintaining a relationship in Malaysia. By using social media (i.e., WeChat), it has contributed a direct impact for trust forming between actors, especially dealing with the Chinese partners. WeChat is the largest social application in China, which enables the Malaysia SMEs to create a public post and transparently update their business operation, and these can be used to enhance partners' and clients' reliability and validity towards them. Hofstede (2001) highlighted that Malaysia is a collectivistic society, people desire to have a close and long-term commitment to the group and their networks. This reason influences the society to foster strong relationships and be responsible to the person who they deal with them. Before starting a business, it is vital for Malaysian SMEs to establish relationships with their Asian partners; it is challenging to conduct and operate a business without having a relationship in Asian countries (Rothenhorst 2018). For Malaysian, the relationship is more critical to build than discuss the issue (World Business Culture 2019). As compared to Western countries, Chinese focuses more on both relative and human relationship than a economic benefit relationship (Luo 2009). They desire to have a close relationship with their partner while doing business, which is differ from Western companies that incline to a professional relationship rather than a personal relationship (Chalre Associates 2019).

Typically, Malaysian SME entrepreneurs spend more time, money, and effort for investing the relationships with their international partners or clients. These are considered part and parcel of the social culture. For example, they will have meals with others which are within or outside the company regularly because they perceive such action as an opportunity to enhance their personal relationship with business partners. Apart from that, personal treats for food and entertainment, celebrate ceremonies together and gift giving culture are perceived as a way of creating harmonious human relationships, which is different and to certain extend is prohibited in the Western companies. The culture influences the actions and behaviors of Malaysian SMEs. They are motivated in developing and solidifying a personal relationship with their business partner. In this sense, the Malaysian SME

entrepreneurs normally focus on friendship forming before doing business, and sometimes the business opportunities may occur through the relationships.

5.3 Managerial implications

The managerial implication of this thesis can be used by business entrepreneurs and government institutions. The first implication originates from social media (e.g., Facebook, WeChat, and WhatsApp). Entrepreneurs are recommended using social media (e.g., Facebook and WeChat) to search for potential international partners by sorting their friend list. They can know the current situation of their previous college and university friends and then connect them directly. Prospects include a local and a Malaysian expatriate who is living in a targeted country. Since the trust and reliability exist in the relationship, entrepreneurs could connect them easily and rebuild the relationship. Further, entrepreneurs can smoothly enter the targeted markets because of counterparts' information, market knowledge, and assistances (e.g., market testing).

The second implication for business entrepreneurs is to focus on the networks, especially in the establishment of *guanxi*. In Malaysia, *guanxi* plays essential roles in daily business practices, and implementation of international business strategies. Entrepreneurs have to know on how to create and develop favorable *guanxi* with their counterparts in order to ensure a smooth international business expansion journey. They are suggested to reconnect and rebuild friendship with their old friends, former colleagues, and former business partners even though they have lost physical contacts or do not contact each other frequently. It is better to develop the *guanxi* relationships by starting sharing about their personal life or engage in online interaction before commencing business discussion, such as *Like* their friends' posted photos, *Comment* or *Share* their friends' online posts.

Apart from that, entrepreneurs are suggested to build common interests or hobbies with counterparts; this serves as managing and investing the *guanxi*. For informal form, they can share the wine knowledge, sports techniques and skills (e.g., golf, tennis, cyclo-cross) and traveling experience among each other. These can use to enhance knowledge of certain interest and strengthen the *guanxi* relationships. Importantly, it helps in transforming a business partner relationship into a personal relationship.

Besides, reciprocal relationship mindset is recommended for entrepreneurs to bring in their business while dealing with international partners. As the global marketplace becomes more interconnected and accessible, new business ideas and golden opportunities could be discovered during the communication between business actors. Apart from expanding a business to a targeted market, the Malaysian SME entrepreneurs also need to understand and satisfy their partners' needs. Mutual benefits relationship is highly recommended. That is, the Malaysian SME entrepreneurs should also facilitate their international partners when they request for assistance to expand their business to Malaysia. Entrepreneurs could help to enhance the business operation and introduce networks to their partners in Malaysia.

This thesis also important to Malaysian government and institutions. They are recommended to organize more seminars and provide more trainings regarding of how to build and maintain a network relationship with new and existing actors. Further, institutions should encourage Malaysian SME entrepreneurs to participate more in government international business support program particularly in building networks. Importantly, the Malaysian SME entrepreneurs should be equipped with the art of turning business partnership to the personal relationship among business entrepreneurs.

5.4 Limitations and suggestion for future research

In term of limitation, this thesis only applied the network theory, internationalization theory, and Malaysian SMEs internationalization theory to conduct the study. It might be interesting to include learning theory in the future research, especially the inward and outward internationalization. Future research is suggested to identify and to explain the types of knowledge that can be acquired and shared among the business actors.

Another limitation is that the data are collected from the Malaysian SMEs that are in the early stages of internationalization (i.e., sell to abroad), the current findings may not be strong enough for the SMEs which already at the mature stages of internationalization. To strengthen the current findings, future research should cover interviews from the mature stages of SMEs in the internationalization (i.e., a sales subsidiary, sales office, and wholly owned subsidiary).

As the current thesis is focusing on the context of Malaysian SMEs internationalization through their networks, it will be more significant if future research could be conducted in another developing Asian country, such as Vietnam and Cambodia, to investigate the similarities and differences elements, or to add new elements to the existing model.

The empirical data of this thesis is mainly focused on Malaysian SMEs to Chinese Asian countries. It will be interesting to explore the internationalization of Malaysian SMEs to Western countries, such as Europe and Americas. The business practice of Western countries should be different from the Chinese Asian countries; Malaysian SME entrepreneurs may need to initiate a business network instead of a *guanxi* with Western business partners as they are more emphasized on professional or business relationship. Future research may also consider a hybrid of business network and *guanxi* among Malaysian SMEs when dealing with Western business partners.

The last limitation is that this thesis includes many industries while collecting empirical data, such as from the instant beverage, restaurant, bird's nest supplier, designing and printing service, and hardware trading. This thesis has included two sectors (i.e., manufacture and services provider) to examine the role of networks for the internationalization of Malaysian SMEs. A call for future research that focuses on one sector is recommended by comprehensively understanding the context and phenomenon.

5.5 Assessment of validity and reliability

The validity and reliability are often used in the quantitative research, such as using a correct set of instruments in measuring the constructs of a research framework. That is, a construct should be operationally defined clearly with the support of previous literature. Besides, the research framework should be statistically justified by fulfilling the indices and assumption checks of a statistical model (Hair, Black, Babin & Anderson 2010). However, the validity and reliability test are relatively important to the qualitative research paradigms, and it is an essential step that should not be neglected (Golafshani 2003).

In the context of qualitative research, validity is referred to the accuracy and truthfulness of scientific findings (Le Compe & Goetz 1982), which requires researchers to utilize the right measure, such as interview questions in response to the defined research questions. This thesis has met the validity of research by using Gioia methodology from a huge data into specific category of dimensions. Importantly, the interview questions were set according to the research questions and objectives. For instance, questions were surrounding with following topics: internationalization, networks, business expansion, international market, international opportunity, operation in the international market and so on. This thesis also ensures the validity by approaching the right interviewees with the identity of Malaysian SME entrepreneurs, and they are currently operating their business in at least one international market.

On the other hand, reliability could be referred to the methodology of qualitative research, especially in regards to the consistency and stability of the data collection (Selltiz et al. 1976). The current thesis has met the reliability of qualitative research by using a consistent process during the interview of five companies. That is, all the interview questions were similar and only one interviewer was assigned to handle the interview process. Further, the interviewer utilized a similar communication language and platform (i.e., Skype) during the process. As a result, the findings of this thesis should be replicated in the future study if a similar setting of research methods and designs are used.

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7 APPENDIX

Interview question

- What motivation has driven your company to enter the selected international market?
- Apart from scaling your business in the international market, what other achievements that your company wishes to gain from internationalization?
- As we know that international opportunity is everywhere, however, what kind of consideration that leads you to decide to enter the targeted international market?
- How does your company get relevant knowledge, information, and opportunity of the targeted international market?
- Where do you get to know the counterparts/partners/clients of the international market?
- Do the mentioned counterparts/partners/clients in the international market directly or indirectly relate to any of the counterparts/partners/clients in Malaysia?
- While operating in the international market, any unforgettable or special experience that you had encountered with your counterparts/partners/clients?
- During the operation in the international market, what kind of advantages does you or your company has gained from the counterparts/partners/clients?
- Any new international network or international business idea has generated during the interaction with counterparts/partners/clients?
- How does your company coordinate and manage your international business relationships?
- How do you think of your company's position within the international network?
- How important of networks to your company for entering the international market?
- Based on your company's experience, are there any challenges/drawbacks of using network to enter the international market?
- Will you or your company increase, maintain, or decrease the commitment level with the international business counterparts/partners/clients? Any reasons?

List of companies

- | | |
|---------------|---|
| 1) Company A1 | : Venus Food International Sdn Bhd |
| 2) Company A2 | : SOP Restaurant & Bar |
| 3) Company B | : Malaysian Bird's Nest; WeChat ID: soonchier93 |
| 4) Company C | : Dartlife Print |
| 5) Company D | : Loyal Tools Sdn Bhd |